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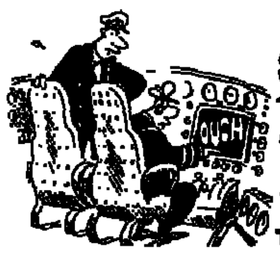

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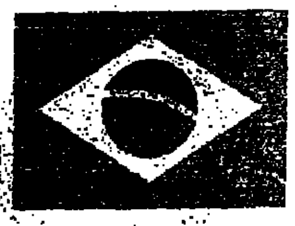

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World Business Newspaper THURSDAY JUNE 6 1996

Santer pushes for more flexibility in EU working hours

European Commission president Jacques Santer called for more flexible working hours, including parental leave, saying they could make a significant contribution to tackling the unemployment crisis in Europe. Mr Santer said that reorganising working time would be a central theme in talks with business and trade unions on his proposed pact of confidence on employment. His call came as a European Union survey showed consumer concern about unemployment was growing. Page 14

Paris, Bonn promise defence merger: France and Germany pledged to define a "common security and defence concept" following Paris' improving relations with Nato and its recent army reforms. At the end of a summit, President Jacques Chirac and Chancellor Helmut Kohl pledged they would finalise their joint "concept" at the next regular Franco-German summit in December.

Saab Automobile, the struggling Swedish carmaker managed and half-owned by General Motors, is to produce three new models and revamp its US sales operation along the lines of GM's innovative Saturn subsidiary. Page 15

Italian inflation declines: Italy's inflation rate fell slightly last month to an annualised figure of 4.3 per cent against 4.5 per cent in the previous two months. Page 2

Digital TV alliance breaks up: An ambitious digital television alliance between Bertelsmann of Germany, Canal Plus of France and British Sky Broadcasting to develop establish digital television in Germany looked to have broken up as the parties criticised each other. Page 14 and Lex

Germany revises economic figures: The German economy contracted as expected in the first quarter but a slight upward revision to earlier figures indicated that the country is experiencing a slowdown rather than a recession. Page 2

Call to end UK non-co-operation: The European Commission called on Britain to stop its policy of non-co-operation in the European Union, warning it delayed a deal on lifting the ban on British beef. Page 8

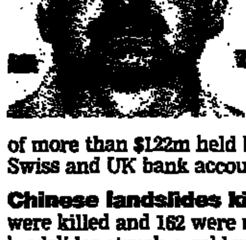
Yeltsin wins cash pledge: President Boris Yeltsin convinced Russia's Communist-dominated parliament to agree to provide extra money for teachers' holiday pay and hard-hit defence plants – but the move could threaten Russian financial markets days before the presidential election. Page 2

Hoechst, the German chemicals group, is pulling out of the market for CFC substitutes, selling most of its fluorochemicals business to Belgium's Solvay. Page 17

$230m Veba deal opposed: Germany's cartel office challenged Veba's DM350m ($230m) acquisition of a 24.9 per cent stake in Bremen's public utility company but the industrial conglomerate said it would appeal. Page 3

Rhône-Poulenc, the French chemicals company, is expected to announce the sale of US drugs businesses worth more than FFr1bn ($190m) as part of a FFr10bn plan to halve the group's debt burden. Page 17

US in Mexican money laundering probe



The US Justice Department has launched an inquiry into whether the US banking system was used to launder money by Raúl Salinas (left), brother of former Mexican President Carlos Salinas. The inquiry comes in addition to investigations in Mexico, the UK and Switzerland to determine the source of more than $122m held by Mr Raúl Salinas in Swiss and UK bank accounts. Page 4

Chinese landslides kill 66: Sixty-six people were killed and 162 were missing after two huge landslides struck a gold-mining area of south-west China, the official Xinhua news agency said.

Search for Kashmiri hostages called off: Indian and foreign experts ended a three-day search for clues to the fate of four Western hostages, including two Britons, held in Kashmir since last July. No leads were found despite reports that they had been killed.

Mountain of garbage: Nepalese climbers have collected 2,000 kg (4,400lbs) of garbage on Mount Everest and say at least 15,000 kg of decades-old rubbish remains to be collected from the world's highest mountain.

■ STOCK MARKET INDICES

New York: lunchtime		
Dow Jones Ind Av	5,660.17	(-5.54)
NASDAQ Composite	1,244.04	(+0.36)
Europe and Far East		
CAC40	2,115.35	(+4.35)
DAX	2,552.53	(+6.28)
FT-SE 100	3,753.4	(-1.8)
Nikkei	21,881.43	+23.31

■ US LUNCHTIME RATES

Federal Funds	5¼%
3-mth Treas Bills: Yld	5.197%
Long Bond	87⅞
Yield	6.996%

■ OTHER RATES

UK: 3-mo Interbank	6½%	(6½%)
UK: 10 yr Gilt	96⅛	(96⅞)
France: 10 yr OAT	105.16	(105.41)
Germany: 10 yr Bund	98.18	(98.37)
Japan: 10 yr JGB	99.175	(98.8877)

■ NORTH SEA OIL (Argus)

Brent Dated	$18.29	(18.47)

■ GOLD

New York: Comex		
(Aug)	$388.9	(390.8)
London:		
close	$387.8	(390.75)

■ DOLLAR

New York: lunchtime		
£	1.54575	
DM	1.53165	
FFr	5.18145	
SFr	1.2584	
Y	108.975	
London:		
£	1.5482	(1.5499)
DM	1.5293	(1.5318)
FFr	5.1834	(5.1861)
SFr	1.2551	(1.2571)
Y	108.845	(109.025)

■ STERLING

DM	2.3675	(2.3741)
Tokyo close:	Y 108.9	

Albania	LEK 220	Germany	DM4.00	Lithuania	Lts 15.00	Qatar	QR13.00		
Austria	Sch37	Greece	Dr400	Lux	LFr75	S.Arabia	SR12		
Bahrain	Din1.250	Hong Kong	HK$20	Malta	Lm0.85	Singapore	S$4.30		
Belgium	BFr75	Hungary	Ft330	Morocco	MDh16	Slovak Rp	Sk65		
Cyprus	C£1.20	Iceland	IKr230	Neth	Fl 4.75	S. Africa	R12.00		
Czech Rp	Kc60	India	Rs75	Nigeria	Naira90	Spain	Pta250		
Denmark	DKr18	Israel	Shk7.90	Norway	NKr20.00	Sweden	SKr20		
Egypt	E£5.00	Italy	L3200	Oman	OR1.50	Switz	SFr3.70		
Estonia	EKr 22	Japan	Y500	Pakistan	Rs40	Syria	S£65.00		
Finland	FM15.50	Jordan	JD1.50	Poland	Zl 5.50	Tunisia	Din1.750		
France	FFr11.50	Kuwait	Fils.650	Portugal (m'land)	Es240	Turkey	L80,000		
		Lebanon	LL3,000			UAE	Dh12.00		

Threat to prices when Iraq re-enters market

Opec effort to crack down on oil quotas set to fail

By Robert Corzine in Vienna

An attempt by some members of the Organisation of Petroleum Exporting Countries to end persistent violations of oil quotas looked set to fail last night.

Failure of the initiative would threaten a price collapse following the re-introduction of Iraq into world oil markets over the next few months.

A number of delegates to Opec's 100th ministerial meeting, which opened in Vienna yesterday, called for urgent steps to ensure that persistent quota busters, such as Venezuela, rein in their over-production. But Saudi Arabia, Opec's largest producer, appeared doubtful about the success of any crackdown.

Iraq last month reached agreement with the United Nations to export $2bn in oil over a six-month period to pay for food and medical supplies. Opec delegates will today begin discussing arrangements that would boost Iraq's current quota by around 700,000 barrels a day in order to meet the UN revenue target. But many delegates said an expanded Iraqi quota needed to be offset by cuts from those members currently cheating on their quotas.

One Opec official said: "We need to shave 600,000 barrels a day off Opec's current production level." That level is running at about 1.5m barrels a day above the group's official production ceiling of 24.52m barrels a day.

Other officials called for even tougher action against quota violators, which industry analysts say include Nigeria, Algeria, Qatar and Gabon. "Over-production should be cut by the whole amount," said Mr Abdalla Salem El-Badri, Libya's oil minister.

But Saudi Arabia, which at last November's Opec meeting adopted a tough line with Venezuela, yesterday appeared ambivalent about pursuing such a strategy.

"People are talking about cuts," said one Gulf Arab official, "but Opec has no enforcement mechanism and all members are independent sovereign countries."

Opec officials say Saudi Arabia's priority at this week's meeting is simply to secure agreement on a new Iraqi quota, which would be added to the present production ceiling for the next six months.

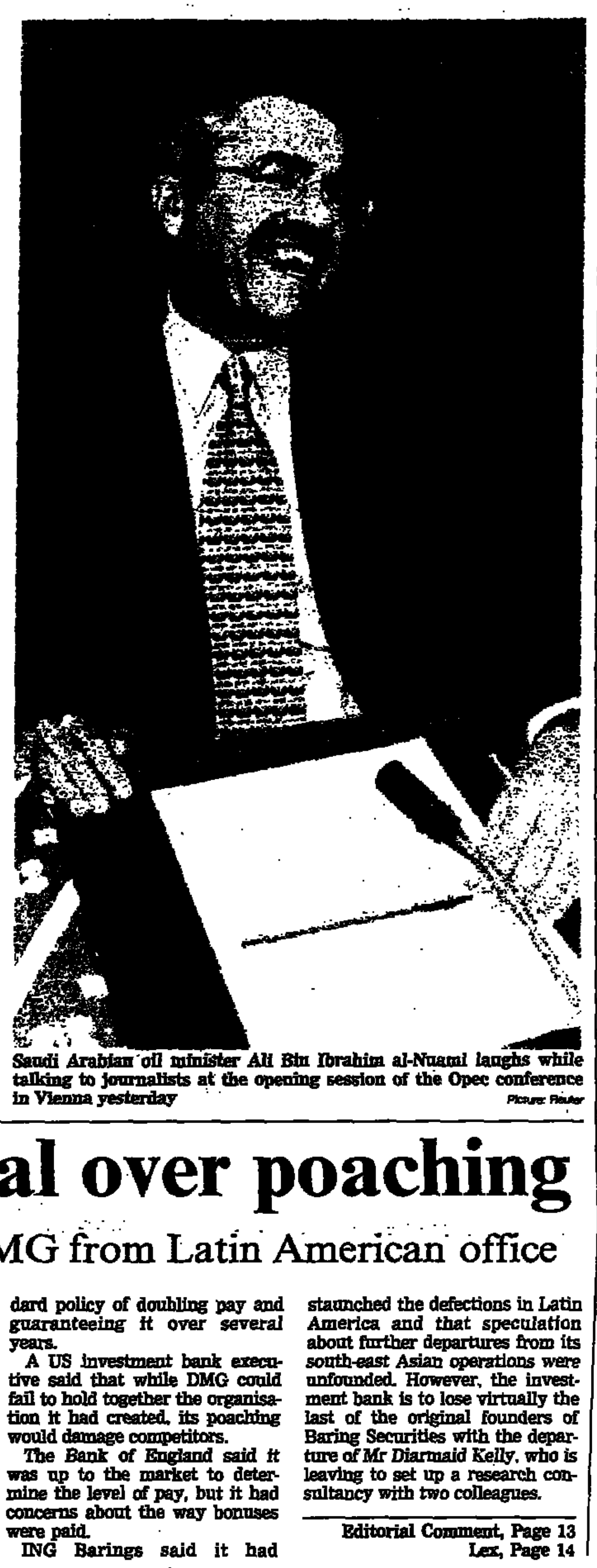
Riyadh appears to have taken the view that robust worldwide demand for oil and possible delays in Iraqi oil actually reaching world markets will minimise the risk of a price collapse.

A Gulf Arab official yesterday predicted that "meaningful" amounts of Iraqi oil were unlikely to hit the markets until the fourth quarter of the year, although Iraqi officials have this week been boasting about their ability to boost the country's production to the required levels in a matter of weeks.

The Gulf Arab official added that if the relatively optimistic view of world oil demand and supply prevailed, then in the fourth quarter "we would still have a balanced market at worse or one on the tight side at best".

● US companies have been officially authorised to buy Iraqi oil under the terms of the UN deal, the State Department said yesterday, AFP adds from Washington.

"This is not a change in our policy with respect to Iraq," said Mr Michael McCurry, White House spokesman. "We supported those oil sales because we believe the American oil and gas industry can be a part of the management of those sales, so that the proceeds go to the people who are badly in need of relief."



Saudi Arabian oil minister Ali Bin Ibrahim al-Nuaimi laughs while talking to journalists at the opening session of the Opec conference in Vienna yesterday Picture: Reuter

Big Dutch bank takes control of fund manager

By David Brown in Amsterdam

Rabobank, Holland's second-largest bank, has agreed to take control of Robeco, a leading Dutch fund management group, as part of a strategy to build up rapidly its position in international life insurance and fund management businesses.

It is the latest in a series of large alliances to be formed by European financial institutions aimed at exploiting the so-called "Allfinanz" markets, combining banking, insurance and fund management products.

The deal, which foresees both companies continuing to operate under their own names, would bring together two of Europe's leaders in their fields.

Rabobank, with total assets of Fl 293.5bn ($171bn), is one of the few international banks that retains triple A ratings from all major credit agencies. Robeco has Fl 75bn in funds under management.

Under the terms of the preliminary agreement Rabobank, a co-operative with roots in agricultural banking, will initially acquire a 50 per cent equity stake in Robeco's umbrella management arm, Robecam, for approximately Fl 500m.

Rabobank will gradually shift some Fl 30bn in investment funds now managed by its Interpolis insurance subsidiary and private banking subsidiaries over to management by Robeco.

Provided that "further co-operation proves to be successful", Rabobank will purchase the remaining Robeco equity by means of a performance-related trigger to be exercised within "four or five years," Rabobank's chairman Hermann Wijffels said.

The second tranche of the two-stage deal is to be triggered when Robeco's funds under management have doubled.

Robeco is known mainly for its four listed investment funds: Robeco and Rolinco, which invest in shares; Rorento which focuses on fixed income instruments;and Rodamco, which invests in property.

"Robeco needs a partner which not only offers distribution

Continued on Page 14

ING attacks German rival over poaching

Formal complaint made after 44 staff defect to DMG from Latin American office

By Nicholas Denton in London

Deutsche Morgan Grenfell, the investment banking arm of Deutsche Bank, came under attack from competitors yesterday for predatory poaching of staff and bidding up pay in the securities industry to "outrageous" levels.

Internationale Nederlanden Groep, which this week lost 44 executives from its Latin American equities operations, has made a formal complaint to Mr Hilmar Kopper, chairman of Deutsche Bank.

"We said that we totally disagree with these practices followed by Deutsche Morgan Grenfell," said Mr Hessel Lindenbergh, chief executive of ING Barings, the merged investment bank created last year after the Dutch bank rescued Barings.

"I think there is growing resistance and irritation in the industry towards firms which deliberately poach whole teams," he added. "Poaching teams pushes up pay unduly."

Mr Lindenbergh said he shared concern – expressed at a banking conference on Tuesday by Mr Andrew Buxton, chairman of Barclays Bank of the UK – about the practice of giving guaranteed bonuses over two to three years. He said the $20m packages over three years being offered to some individuals in the US were extraordinary.

Deutsche decided to build its investment banking operations in 1994 through hiring and organic growth rather than by acquisitions. Since it began its drive it has hired about 250 professionals from other firms, and expects to appoint another 150 staff by the end of the year.

S.G. Warburg complained to Deutsche Bank about its predatory hiring before it was taken over last year, but Mr Lindenbergh is the first senior investment banker to express publicly such criticism.

Mr Michael Dobson, chief executive of Deutsche Morgan Grenfell, said reaction of competitors was "frankly, hypocritical".

"Some of the most vociferous people, who say that we are wrecking the market, have actively tried to hire people from us at the same time," said Mr Dobson. "The unspoken reason people are whingeing is that they do not like the increased competition."

He said he wanted to squash the notion that DMG had a standard policy of doubling pay and guaranteeing it over several years.

A US investment bank executive said that while DMG could fail to hold together the organisation it had created, its poaching would damage competitors.

The Bank of England said it was up to the market to determine the level of pay, but it had concerns about the way bonuses were paid.

ING Barings said it had staunched the defections in Latin America and that speculation about further departures from its south-east Asian operations were unfounded. However, the investment bank is to lose virtually the last of the original founders of Baring Securities with the departure of Mr Diarmaid Kelly, who is leaving to set up a research consultancy with two colleagues.

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Creditors agree $670m rescue package for KHD

By Michael Lindemann in Frankfurt

Klöckner-Humboldt-Deutz, the German engineering group which almost collapsed after uncovering hidden losses of DM928m, has been rescued with a package worth DM1.03bn ($670m).

The package has been agreed by the company's creditor banks, the city of Cologne and a number of other parties.

However Mr Anton Schneider, chief executive, said the company would sell off its KHD Humboldt Wedag plant engineering business – which ran up the losses – and would concentrate on making diesel engines. The company will be renamed Deutz and shares which were suspended on May 28 are expected to begin trading again tomorrow.

Mr Schneider said the bail-out, the second in as many years, had to be undertaken because the diesel engine business, KHD's core activity, had a range of new engines and "an extraordinarily good future ahead of it".

KHD, one of the best known names in German engineering, ran into difficulties 10 days ago when senior executives admitted that they had taken on contracts for three cement plants in Saudi Arabia at prices well below cost. Three senior executives have since been sacked. The state prosecutor in Cologne, where the company is based, is conducting investigations into a group of 15 people, including KHD executives and suppliers.

The DM928m losses at Humboldt Wedag – considerably higher than the DM650m first reported – include a DM322m provision for penalties arising from the three Saudi contracts.

Deutsche Bank, which owns 47.7 per cent of KHD and has been co-ordinating the efforts to save the company, will bear the brunt of the rescue package, putting up DM550m. This includes forgiving debts worth DM190m, supplying DM205m of fresh money, and a number of other measures worth DM155m.

The package also includes:

● An agreement by a consortium of 30 German and international banks to waive interest payments until March 31 1997, a concession worth DM35m.

● The city of Cologne and the state of North Rhine-Westphalia will together buy KHD properties worth DM187m which KHD will rent back.

● KHD employees have agreed to take an average 5 per cent wage cut, accept longer working hours and forgo some of their pension entitlements, measures which will save KHD DM110m.

Mr Schneider forecast that Deutz would make an operating loss of DM36.4m this year and that the size of a net profit or loss this year would depend on the sale of Humboldt Wedag.

Talks had begun with "interested parties" about the sale of Humboldt Wedag, which has a turnover of about DM1.5bn. However, Krupp Polysius, the cement plant subsidiary of the Krupp engineering group which has been named as a possible buyer, said it was not talking to KHD.

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Adjusted figures suggest the country's economy is merely slowing down

Germany revises its recessionary fears

By Peter Norman in Bonn

The German economy contracted as expected in the first quarter but a slight upward revision to earlier figures indicated that the country is experiencing a slowdown rather than a recession.

Real gross domestic product fell 0.5 per cent in the first three months of this year compared with the previous quarter, the federal statistics office said yesterday. But revised figures pointed to economic stagnation in the fourth quarter of 1995 and not a 0.5 per cent fall in GDP as was reported three months ago.

Mr Günter Rexrodt, the economics minister, said the pause in economic growth that began in mid-1995 had still not been overcome.

His remarks were borne out by yesterday's provisional industrial production figures for April, which showed output in March and April combined broadly unchanged from the level of the two previous months.

Yesterday's GDP figures showed activity in eastern Germany down a real 2.5 per cent in the first quarter, but output unchanged in western Germany. Construction activity declined for the third successive quarter in the country as a whole. Harsh winter weather contributed to a real 7.5 per cent slump in seasonally adjusted first quarter output after declines of 3.5 per cent and 0.5 per cent respectively in the fourth and third quarters of 1995.

The economics ministry said a strong 18 per cent jump in construction activity in April triggered a 1.4 per cent rise in the real, seasonally adjusted output of the production industries between March and April.

This recovery followed sharp, weather-induced declines in construction sector output in February and March which prompted a downward revision of overall industrial production growth in March to 0.9 per cent from 2 per cent previously reported. The ministry said it expected most of the GDP loss caused by bad weather in the first quarter would be recovered in the current three-month period.

Official figures showed that domestic demand stagnated in real and seasonally adjusted terms in the first quarter. A 0.5 per cent rise in private consumption and a 1 per cent increase in government spending offset the building sector decline. Business investment stagnated while imports were also unchanged. Exports fell 1.5 per cent compared with the final 1995 quarter, possibly indicating some weakening in the competitiveness of German industry.

First quarter GDP was 0.3 per cent higher than a year earlier. Construction activity was down 11.8 per cent and investment in plant equipment 0.5 per cent lower. But exports of goods and services were 3 per cent higher and state spending 3.4 per cent up on the first quarter of last year.

Mr Rexrodt said prospects for a turnaround in Germany's business cycle were not bad in spite of yesterday's generally gloomy figures. Among positive factors, he mentioned "normalisation" of the D-Mark exchange rate and moderate wage increases.

Early yesterday, negotiators agreed a 1.9 per cent annual pay increase for 230,000 insurance workers with effect from May 1. The settlement was in line with recent agreements for a 1.5 per cent pay rise in the textile industry and 2 per cent for chemical workers.

Yeltsin given cash to meet poll pledges

By John Thornhill in Moscow

President Boris Yeltsin yesterday scored a notable political victory by badgering Russia's Communist-dominated parliament into agreeing to provide extra money for teachers' holiday pay and hard-hit defence plants.

But the move, bitterly opposed by the central bank, could prove an economic "own-goal", threatening instability in Russia's financial markets in the critical days before the presidential elections on June 16.

Straining to find funds to pay for his extravagant pre-election promises, Mr Yeltsin's government rushed a bill through parliament forcing the central bank to transfer Rbs5,000bn ($1bn) from its 1994 revenues to the federal budget before June 10.

The Communist party faction, the biggest in Russia's parliament, initially opposed the bill, fearing the populist spending package would boost Mr Yeltsin's electoral fortunes. But the party's leaders, who have long complained about teachers' poor working conditions, backed down when they realised the political implications of opposing it.

Mr Vladimir Panskov, finance minister, denied the transfer of funds would be inflationary, claiming the money would only be lent to regional governments and had to be repaid – without interest – before the end of the year.

But Mr Sergei Aleksashenko, deputy chairman of the nominally independent central bank, branded the bill "illegal" because the monetary "emission" had not been approved in the 1996 budget. He suggested the bank might even seek to overturn the decision in the courts.

Mr Aleksashenko added that the central bank could not easily produce the Rbs5,000bn of revenues it received in 1994 and might be forced to print money.

Any such move would alarm Russia's volatile financial markets and almost certainly breach the terms of a three-year loan agreed with the International Monetary Fund earlier this year.

"This money may help the government settle the current problem. But there will be more problems in a week which will require Rbs15,000bn or Rbs25,000bn," Mr Aleksashenko said.

The finance ministry's efforts to raise extra funds by non-inflationary means to pay for Mr Yeltsin's promises have been complicated by a sharp drop in tax revenues and a slump in the government debt market.

Mr Yeltsin's re-election campaign was given a surprising boost yesterday when the widow of Mr Dzhokhar Dudayev, the slain Chechen resistance leader, said she would vote for him.

Grachev rebuked over navy vote

By John Thornhill

Russia's defence minister has sparked a furious political row in Moscow with a claim that sailors voting early for the June 16 presidential election had all backed President Boris Yeltsin.

Communist party officials immediately claimed that if General Pavel Grachev's comments were true, electoral law must have been breached – either commanding officers must have ordered their men to vote for Mr Yeltsin or the ballot boxes must have been opened prematurely.

The central electoral commission said it had found no evidence of malpractice, but chided Gen Grachev for making irresponsible statements.

The minister said he had based his observations on daily reports he received about the mood of military personnel.

Because of Russia's vast size, many voters in remote regions or on active military service have already begun to vote. Reindeer herders in the far north have voted in specially erected leather tents while submariners and oil workers in the far east have also cast their votes early.

Some of these voters may support candidates who will not appear on the final ballot paper. Mr Aman Tuleyev, the Communist parliamentary speaker from the Kemerovo region, hinted yesterday he would pull out in favour of Mr Gennady Zyuganov.

Zyuganov, in Moscow earlier in the campaign, has widespread support among the elderly but has failed to win over the young Reuter

Zyuganov seeks election boost from the 'red and passionate'

Chrystia Freeland follows the Communist campaign to Krasnoyarsk

For the orthodox Old Believers who clung to the religious traditions of their forefathers, and for free-spirited Cossacks fleeing their feudal lords, Siberia was a place of refuge from the wrath of Russian tsars. Later, it became a place of exile for thousands of political dissidents who dared to criticise the communist regime.

This week, in a final campaign trip which will take him to three of Siberia's largest cities, Mr Gennady Zyuganov, the Communist leader, is hoping that the independently-minded people of these remote eastern steppes will help him defy the increasingly dismissive forecasts of Moscow pollsters and triumph in next week's presidential ballot.

"The last 10 days are crucial and so I have a request to all of you here. Everyone must agitate at least six or seven others; it is our only hope," Mr Zyuganov yesterday urged a packed hall of party faithful in the city of Krasnoyarsk, four time zones east of Moscow.

The Communists of Krasnoyarsk, which can be translated literally as "red and passionate", responded with enthusiasm, giving their smiling candidate a thunderous standing ovation.

"Gennady Andreyevych, you must feel that behind you there is a strong Siberian brigade," said Mr Vladimir Yurchik, head of the local party committee, feeling perhaps that his leader might need a lift after a wave of recent polls showing President Boris Yeltsin ahead of his Communist rival. "I think I can promise you that here in Krasnoyarsk, Zyuganov will win a majority."

On the hustings there, and in neighbouring Novosibirsk, Mr Zyuganov comes across as a more formidable figure than he can appear from the perspective of Moscow, where the chattering classes have already written him off.

But in these two vast Siberian regions, where Communists dominated the December parliamentary poll, Mr Zyuganov is a seemingly inexhaustible campaigner. He addresses invariably crowded halls and answers questions with a patience which his supporters praise as one of his best qualities.

And although even the most fervent Communist is unlikely to describe Mr Zyuganov as charismatic – his backers prefer adjectives like "calm" and "sober" – the notoriously dull candidate seems to be making an effort to pepper his speeches with a few jokes.

The one-liner which audiences like best is a double-barrelled attack on the most loathed traits of Russia's two most recent leaders: Mr Yeltsin's reputation for heavy drinking, and Mr Mikhail Gorbachev's anti-alcoholism campaign.

Asked by an elderly professor in Novosibirsk if recent television pictures showing him holding aloft a glass of vodka meant that "you, too, are an alcoholic", Mr Zyuganov answers: "Well, I must say that I drink considerably less than Mr Yeltsin, but a little bit more than Mr Gorbachev."

The use of the title "Mr", a foreign form of address in Russian and spoken by Mr Zyuganov with an ironic inflection, is part of the emphatic nationalism which has become the Communist leader's central theme on the campaign trail.

By describing Russia's current president as Mr Yeltsin, Mr Zyuganov is underscoring his assertion that the president "is a western agent ... who has betrayed the interests of the country".

By contrast, Mr Zyuganov portrays himself as a committed Russian patriot, a point he emphases much more than traditional Communist or even social-democratic economic policies. Whereas Mr Yeltsin is seeking to define the race as a contest between "democracy" and "communism", Mr Zyuganov told Novosibirsk voters: "Today, the choice is very simple: either you are for Russia and Russians, or you are against them."

And while he pays careful homage to the traditional Communist idols, laying a wreath at the Lenin statue in every city he visits, the symbols of Russian nationalism have an ever more prominent place in his campaign.

At an open-air rally in the centre of Novosibirsk, Mr Zyuganov spoke beneath a huge banner reading "The Orthodox Church for Zyuganov" and two icons were held above his head. As a warm-up act, a woman in a traditional embroidered blouse sang Russian folk songs. In his standard campaign talk, Mr Zyuganov has even taken to boasting that he has been endorsed by Father Vladimir, the spiritual leader of the fervently nationalistic Cossack movement.

But despite Mr Zyuganov's best efforts to shift his party away from a no longer popular communist ideology towards a new creed – at a Novosibirsk press conference he answered a very specific economic question with a digression about the red flag and the weakening of the Russian state – he has failed to engage the new generation.

The politician who prefers to describe himself as "the candidate from the national-patriotic coalition" met a warm reception in Siberia, but his supporters were almost entirely middle-aged. They are military men, professors, doctors, blue-collar workers, but almost all of them are members of Russia's lost generation, whose past way of life has been shattered but which is too old to begin anew.

"The support for Zyuganov will be great here, more than in European Russia. We have many people, blue-collar workers, people from the defence sector, who have lost their jobs and everything," said Mrs Svetlana Ivanova, a retired doctor and Communist party member in Krasnoyarsk. "But I don't think the young will support us. They have become carried away by business and such things."

Yet despite his visible failure in Siberia to attract the young voters analysts say he needs in order to win, Novosibirsk offered Mr Zyuganov one source of solace. In gubernatorial elections held in the region last December, a Communist candidate, who had been far behind the pro-Yeltsin incumbent in opinion polls, won a surprise victory. Mr Zyuganov is hoping that next week the nation will follow the Siberian example.

EUROPEAN NEWS DIGEST

Turkey awaits coalition's fall

Turkey's fragile conservative coalition looks set to crumble, after the True Path party of Mrs Tansu Çiller, the former prime minister, yesterday decided to vote against its coalition partner in a no-confidence motion expected on Saturday.

MPs from True Path voted unanimously to support the opposition Islamist Refah party in the censure vote against prime minister Mesut Yilmaz of the Motherland party. The minority conservative coalition is not expected to survive beyond this weekend. The debate leading up to the vote begins today.

The decision came after Turkey's parliament voted to set up a committee to investigate the sources of the personal wealth of Mrs Çiller. Parliament had earlier agreed to set up two other committees to investigate allegations of corruption against Mrs Çiller. If parliament accepts the committee findings, she will be sent for trial and become ineligible to return to office in January. Under a power-sharing deal agreed in March, when the coalition was set up to keep the Islamists from power, Mr Yilmaz was scheduled to hand over the premiership to Mrs Çiller. *John Barham, Ankara*

German telecoms reform agreed

The liberalisation of Germany's telecommunications market moved a significant step closer yesterday when the post and telecommunications committee of the Bundestag, the lower house of parliament, reached agreement on details of the legislation.

Three controversial issues were settled by the committee, which includes parliamentarians from both the government and opposition parties. They agreed: the federal states should have a say in the future regulation of the market; telephone users should be able to keep their existing phone numbers when switching to new suppliers after the market is liberalised on January 1 1998; and telecoms companies should be able to use public rights of way for cables without charge.

The post and telecommunications ministry said nothing now stood in the way of Bundestag approval of the bill, which will set the framework for operations by the soon-to-be partially privatised Deutsche Telekom and its potential private sector rivals. *Peter Norman, Bonn*

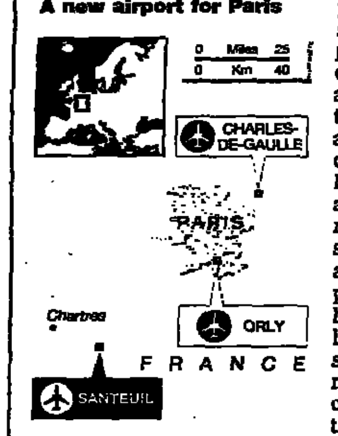
Visa drops plans to ban rivals

Visa International, the credit card organisation, has dropped plans to prohibit its European member banks from issuing rival cards after a warning last week from Mr Karel Van Miert, European competition commissioner, that he could "not accept" such a move.

Mr Van Miert's comment followed complaints from card operators American Express, Diners Club and Dean Witter Discover that Visa, an association of 19,000 member banks, was planning to extend to Europe an internal rule prohibiting its US members from issuing other cards, apart from rival Mastercard. Amex is keen to start issuing its cards through banks. A board meeting of Visa International in Montreal, Canada, yesterday discussed intensifying competition in the card industry and gave power to its operating regions to impose similar rules to that in the US. *Neil Buckley, Brussels*

Paris airport to be near Chartres

A new airport for Paris



The French government yesterday chose a site 80km south-west of Paris for possible construction of the capital's third international airport. Ms Anne-Marie Idrac, the transport minister, said after a cabinet meeting the chosen location was at Beauvilliers, near Chartres, as suggested by a transport ministry committee. "At this stage we are not talking about carrying out the project, which is a possibility, but about buying up the land," a government spokesman said. Other sites, north and north-west of the capital, were candidates for the airport, intended to relieve congestion at Orly, 10km south of Paris, and Roissy-Charles de Gaulle, north of the capital. *Reuter, Paris*

Objection to Belgian bank deal

The European Commission has told three shareholders in Banque Bruxelles Lambert, Belgium's fourth-largest bank, that it cannot accept a joint control agreement signed last year.

Groupe Bruxelles Lambert, the holding company, Royale Belge, the insurance company, and Crédit Communal, the publicly owned Belgian bank, signed the agreement last August to pool their stakes, totalling 37.25 per cent, and to adopt a joint policy towards BBL.

But the staff of Mr Karel Van Miert, competition commissioner, have ruled the agreement might stifle competition. They have written to the three shareholders giving them one month to rewrite it. *Neil Buckley, Brussels*

Lithuania open for foreign banks

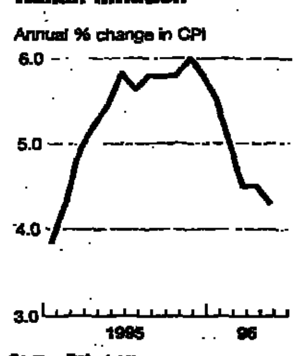
The central bank of Lithuania said it hoped foreign banks would open branches in the country after parliament passed laws opening the market to overseas investment.

Foreign banks can now open branches, buy shares in new banks or in those already operating. Several foreign banks already have representative offices in Vilnius: Polish banks Polska Kasa Opieki and Kredyt Bank, and Russia's Kontakt Bank. Britain's Royal Bank of Scotland also has permission to open an office. *Reuter, Riga*

ECONOMIC WATCH

Inflation edges down in Italy

Italian inflation



Source: Datastream

Italy's inflation rate declined marginally last month to give an annualised figure of 4.3 per cent against 4.5 per cent in both the previous two months. During May, consumer prices increased by 0.4 per cent compared to 0.6 per cent in April, according to Istat, the national statistics institute. The dip in consumer prices was in line with expectations but the level of inflation remains well above the European Union norm. The previous government projected that inflation would fall to 3.5 per cent by the end of the year. But economists said yesterday that this was unlikely. The Bank of Italy has set a 4 per cent level as the benchmark for cutting interest rates, and last week Mr Antonio Fazio, its governor, insisted the government should aim for taking inflation below 3 per cent in 1997.

The poor April performance was explained by meat prices being forced up by consumers switching to white meats as a result of the BSE disease scare in beef. The figures also underlined the difference between inflation levels in the north and south of the country, with Venice's prices more than twice those of Palermo. *Robert Graham, Rome*

■ Belgian unemployment fell to 13 per cent in May from 13.4 per cent a month earlier.

Hangover headache for Italy's parliament

Some 90 decrees from previous legislatures must be tackled, writes **Robert Graham**

A backlog of legislation is threatening to paralyse Italy's new parliament. Without a cross-party agreement, the first year of the 13th legislature since the second world war will be occupied almost entirely with legislative issues inherited from previous parliaments.

At the heart of the problem is the increasing use of the decree, by which governments can put legislation into effect pending parliamentary approval. A decree takes effect as soon as it is published in the official gazette. Parliament has 60 days to convert it into law, after which it can be renewed or allowed to lapse.

The new parliament has inherited 92 decrees (66 from the last government, headed by Mr Lamberto Dini) some of which involve public spending – a total of some L40,000bn (£26bn) over three years.

In an unusually forthright letter, President Oscar Luigi Scalfaro has told parliament: "By their sheer number, these 90 decrees usurp parliamentary prerogative, and through the practice of renewing those not converted into law, the constitutional principles of the balance of powers is permanently undermined."

Some decrees date back to the Amato government of 1992-93. The oldest, relating to the reorganisation of ports, has been renewed 21 times.

The resort to decrees is not a case of the executive trying to wrest power from the legislature. All political parties accept it is a natural consequence of the difficulty of introducing new laws in a reasonable period of time.

Unlike other European democracies, Italy has a strict bicameral system with both houses of parliament enjoying similar powers. This means the normal path of a law involves a detailed committee examination in both houses as well as debate and draft changes on the floor. Amendments in either house have to be accommodated with fresh readings.

The Vatican took its firmest and most explicit stand against the successionist Northern League yesterday, describing the movement that wants to split Italy as an arrogant group that could no longer be taken lightly, Reuter reports from Rome. The Vatican newspaper, L'Osservatore Romano, which has considerable political influence in overwhelmingly Catholic Italy, said it feared that verbal stands against the League were no longer enough to stop it. A split would have devastating consequences for the north as well as the south, it said.

The legislative process is so time-consuming that governments with slim majorities – the case since 1992 – have found it increasingly hard to resist using decrees, especially in contentious areas.

Controversial decrees tend to be those most renewed because parliament cannot agree on the precise terms on which they should be converted into law. This is the case with decrees regarding reorganisation of the Rai state broadcasting organisation (renewed 15 times) and amnesties for tax evaders and illegal building (12 times).

The last parliament was confronted with 735 decrees, of which 514 lapsed and 10 were rejected. The 122 converted into law accounted for more than a third of the laws passed in that parliament.

A cartoon in one of yesterday's daily newspapers mocked the inability of parliaments to convert decrees into law by depicting a man on his deathbed attended by a priest. "I want to be converted," says the man. "Which decree are you?" asks the priest.

A meeting has been called of all the groups in parliament next week to try to tackle the problem. The aim of the centre-left majority is to strike a deal with the rightwing opposition to settle the most urgent decrees at once. This would be followed by legislation to speed the legislative process.

The opposition is likely to tread warily because a decision to co-operate fully to resolve the backlog of decrees could be seen as a precedent for co-operating on other areas, most notably the budget.

The main pressure for an agreement may well come from a common desire to head off further referendums. These have become another tool to get round parliament's inability to legislate. Over the past decade, 53 issues have been put to a referendum; 35 since 1993. A further 23 are awaiting the go-ahead from the constitutional court.

Speaking before the constitutional court this week, President Scalfaro pointedly warned the "direct democracy" of the referendum should be the exception not the rule.

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Banks chase debt deal for ex-Yugoslavs

By Kevin Done,
East Europe Correspondent

Leaders of the London Club of commercial banks have launched an urgent attempt to win the agreement of the creditors of former Yugoslavia for a controversial phased debt deal with Bosnia-Hercegovina and Macedonia.

The banks are seeking backing for the first step of the deal by the beginning of next week in order to circumvent opposition from rump Yugoslavia – Serbia and Montenegro – which has already launched a legal action in London to try to block the banks' earlier deal with Slovenia.

The London Club of around 350 banks and financial institutions is seeking individual deals with each of the five states to have emerged from former Yugoslavia, which collapsed with debts to the commercial banks now totalling \$4.7bn, excluding interest.

The bulk of the debt, some \$4.4bn, is covered by the so-called New Financing Arrangement (NFA), which was agreed with the London Club in 1988 and was the last debt restructuring deal made by Belgrade before the break-up of the country in 1991.

Detailed debt negotiations have not yet begun with either Bosnia or Macedonia, but the leaders of the London Club have decided this week to press ahead with seeking creditors' approval for the release of both countries from the onerous "joint and several liability" clause in the NFA.

This clause effectively renders each of the successor states of former Yugoslavia liable for the entire \$4.4bn NFA debt.

Mr Mircad Kikanovic, Bosnian finance minister and Mr Kasim Omicevic, governor of the central bank, met officials of Chase Manhattan of the US which chairs the international co-ordinating committee of the banks in Budapest yesterday.

They said that once released from "joint and several liability" Bosnia was "committed to reach an agreement in principle with the ICC and to complete a transaction with a 'critical mass' of international creditors in 1997".

The banks have set certain key conditions. They wish to reach an agreement in principle with Macedonia by the end of October with a final debt exchange in March 1997. For Bosnia they are insisting on agreement in principle by the end of June 1997 and a closing by the end of next year.

Macedonia and Bosnia have made their move at the eleventh hour, as the realisation has dawned in both Skopje and Sarajevo that the banks' previous debt deals with Slovenia and Croatia could soon leave rump Yugoslavia holding a blocking minority of the debt.

The deal with Slovenia, which is taking on 18 per cent of the NFA debt, will be implemented next Tuesday, and the deal with Croatia, which is taking on 29.5 per cent of the debt, should be implemented in mid-July.

The president of the international war crimes tribunal for former Yugoslavia has warned that the failure to arrest indicted war criminals will scupper elections throughout Bosnia planned for September, writes Laura Silber in Belgrade.

In an extract of a speech he intends to deliver in Florence next week as part of a review of the Bosnian peace process, Judge Antonio Cassese of Italy says: "Fair and free elections are said to be the key to a lasting peace in Bosnia and they will not be possible in an environment polluted by alleged war criminals."

The president of The Hague tribunal accuses the international community of issuing a "licence to kill for future tyrants" by allowing the accused to remain at large.

EU snubs Albania after flawed poll

By Marianne Sullivan in Tirana
and Neil Buckley in Brussels

European Union leaders have dropped plans to visit Tirana during a tour of south-eastern European cities later this week.

The European Commission said yesterday the planned visit to the Albanian capital by Mr Jacques Santer, European Commission president, and Mr Lamberto Dini, foreign minister of Italy, which holds the EU presidency, would be "inappropriate" while the country's electoral process was continuing.

The Commission also warned that any strengthening of the EU's commercial and economic co-operation agreement with Albania would depend on the "evolution of the political situation". Proposals for a new agreement would only be submitted in the light of the international observers' report on the elections.

Both the Commission and the EU presidency yesterday reiterated their demand for a re-run of voting in regions where there had been electoral irregularities. But they stopped short of backing the demands of Albanian opposition leaders visiting Brussels for a fresh national election.

Leaders of the Socialist party, Social Democratic party, Democratic Alliance party and the Democratic Right Wing party told Mr Christos Papoutsis, the Greek European commissioner, there had been "flagrant violations" of electoral law, and holding only partial elections would "legitimise the totalitarian regime of President [Sali] Berisha".

Diverse elements of the Albanian opposition have now joined forces in the days since the elections to draw international opinion to what they call Mr Berisha's "coup d'etat".

But police and security forces have effectively countered demonstrations around the country this week, and there has been a heavy police presence in the capital since last week's violent clashes when several leading opposition figures were arrested.

The new hope presented by the prospect of dialogue with the EU has prompted the Socialists to call off a five-day hunger strike. Diplomats in Tirana believe there may be some degree of compromise, with the government agreeing to a partial re-run of the polls, though there was no indication of the extent of such an exercise.

The Central Electoral Commission has so far called for re-runs in four constituencies. That was "clearly not enough for a compromise", said one Tirana diplomat.

"We are not going to accept any kind of compromise," Mr Neritan Ceka, the chairman of the Democratic Alliance said before leaving for Brussels. "We play the role of mediator between Albanian people and the European Parliament." The Socialists and Social Democrats agree, stating that their goal is a new round of elections, or a boycott of the future parliament.

The government continues to argue that the elections were fair and that any claims of irregularities would be decided internally.

"This is the proof of the stolen votes," said Ms Ermelinda Meksi, a Socialist MP, flipping though a folder thick with reports of election day violence, manipulation and irregularities from her constituency in Tirana alone.

President Sali Berisha: accused of an electoral 'coup d'état'

Nato seeks to bridge ambiguity gap

By Bruce Clark in Berlin

Rarely in Nato's 47-year history can a single, ambiguous slogan have been called on to bridge so many almost unbridgeable gaps between nations.

The slogan is "command structure reform" and it refers to Nato's plan to transform itself into a lighter and more flexible defence system, not geared to any particular threat but able to act quickly when dangers arise.

In simple terms, the 66 headquarters dotted across Nato's 16 members are to be replaced by a new arrangement that costs less and requires less armour.

At this week's ministerial meeting in Berlin, it became clear that the budget-driven reform will be used to overcome Franco-American differences over Nato's future, to assuage Russian fears about enlargement, and to impress would-be members.

The circle-squaring task assigned to Nato planners over the next few months was laid out in a communiqué whose finer points were haggled over by French and American diplomats until dawn on Monday.

France successfully insisted that the main elements of a command structure reform should be settled over the next six months – though Nato officials caution that an "architectural model" of the alliance's future shape is the best that can be expected by December.

As part of their general overhaul, military experts have been told to identify "headquarter elements and command positions" that could be used for European-only operations.

Broadly, the US conceded that the potentially "European" parts of the alliance should be clearly identified. In return it won a promise that these forces would have a clear job description. But the translation of these ideas into practice will be a labyrinthine business.

Even without the US-French problem, the command structure change is complicated by the reluctance of nations that host Nato facilities to give them up.

Nato experts have sketched out two rough concepts for the reform, one involving a handful of regional commands, the other a "dense network" of smaller installations.

If efficiency were the criterion, the first idea would seem more promising – but would disappoint Nato's smaller members by leaving no facilities on their soil.

The planners will also have to bear in mind Russian demands that the alliance desist from transferring infrastructure eastwards – as well as the desire of candidate members for some credible indication that they could be defended.

Western diplomats see some scope for reassuring Moscow over the amount of Nato personnel and equipment that would be transferred to the soil of new members. In optimistic moments, Nato officials believe the managing of the US-European relationship within Nato might go hand in hand with the process of reassuring Moscow.

At the heart of the revised transatlantic partnership agreed in Berlin is the proposal to establish mobile headquarters from which ad hoc missions known as Combined Joint Task Forces (CJTF) could be run. Once the CJTF concept is functioning, there would be less need to deploy permanent command structures eastwards: new members would feel more certain that they could be defended and Russia need not feel encircled by Nato bases.

Observers say Moscow's reaction to this argument will provide a clue to its real reasons for opposing enlargement: is it fear of having Nato armour on its doorstep, or is it simply the fact that its former satellites' integrity would be formally guaranteed?

Veba's stake in Bremen utilities opposed

By Judy Dempsey in Berlin

Germany's cartel office, anxious to open the energy sector to more competition, yesterday challenged the acquisition by Veba, the industrial conglomerate, of a 24.9 per cent stake in Bremen's public utility company.

But Veba, which last year bought the stake for DM350m (\$230m), said it would immediately appeal to the region's higher court of appeal.

The cartel office ruling comes as the city councils are partly privatising the Stadtwerke – their utility companies which distribute electricity, gas and water – to raise revenue to relieve budgetary pressures.

The decision to block Veba's stake is seen as a test case for mergers and acquisitions involving the utilities. Victory for the cartel authorities could stop Germany's nine main electricity companies from deepening their regional supply and distribution monopolies.

It could also lead to more competition and transparency, exposing links between companies which buy stakes in the public utilities and the regional energy monopolies.

Mr Kurt Markert, head of the energy department at the cartel office, said Veba's influence in Stadtwerk Bremen (SWB), Bremen's public utility company, would go beyond its 24.9 per cent stake – and beyond the Bremen region itself.

Veba has extensive links with the main energy suppliers in that part of northern Germany.

Most of north Germany's energy is supplied by PreussenElektra, the 100 per cent-owned electricity subsidiary of Veba. Veba has other indirect interests in the region through stakes held by PreussenElektra.

Veba shrugged off any suggestions it would have to pull out of SWB. "We are optimistic about the outcome of the court case," it said.

AMERICAN NEWS DIGEST

McDonnell Douglas strike

About 6,400 union employees at McDonnell Douglas went on strike early yesterday after contract negotiations with the aerospace company failed.

Members of the International Association of Machinists and Aerospace Workers District Lodge 837 picketed the company's headquarters in St Louis, Missouri. On Sunday, the union machinists rejected McDonnell Douglas' proposed four-year labour contract. A three-year contract covering about 6,400 workers at the company expired on May 19.

The president of the lodge said McDonnell Douglas did not respond to the union's offer to accept lower wages. Union officials said that job security and job mergers were key issues in the talks with the company. *Reuter, St Louis*

US Navy chief nomination

Admiral Jay Johnson has been chosen as the next chief of US naval operations, replacing Admiral Jeremy Boorda, who committed suicide last month, Mr William Perry, defence secretary, announced yesterday.

President Bill Clinton will nominate Admiral Johnson for Senate approval to the navy's highest job, Mr Perry said at a news conference during a European trip.

Mr Perry recommended Admiral Johnson for the post to rejuvenate morale in the wake of a series of setbacks ranging from the Tailhook sexual harassment scandal to a string of aircraft training accidents and Admiral Boorda's suicide on May 16.

The admiral, a former fighter pilot with 28 years in the navy, got his fourth star as a full admiral just two months ago when he was elevated to the post of vice chief of naval operations under Admiral Boorda – making him the navy's second-ranking uniformed officer. *Reuter, Lisbon*

More defence spending backed

A key US House committee yesterday approved an $11bn increase in defence spending for next year, despite a White House veto threat.

The appropriations committee approved a $245.8bn defence appropriations budget for the fiscal year beginning on October 1. The committee cut $770m from President Bill Clinton's proposals, eliminating one of four Aegis-class destroyers as well as ship loading equipment. But it added other items and programmes the Pentagon had not included in the Clinton budget.

Most of the proposed increase – more than $9bn – would go to increased weapons purchases and research.

The White House budget director, Ms Alice Rivlin, said in a letter to the committee's senior ranking Democrat yesterday that the proposed increase "will not contribute materially to the currently high levels of military readiness". She added that much of the proposed increase went for weapons not included in the Pentagon's long-range plans. *AP, Washington*

Brazilian output rises in April

Output by Brazilian industry grew 2.6 per cent in April over March, the first positive result of the year, the National Statistics Institute said. But output fell 2.5 per cent against April 1995. The cumulative index of the last 12 months was also down 4.9 per cent against a fall of 3.9 per cent in March.

The accumulated drop in industrial output is now 9.1 per cent in the first quarter of this year compared with a fall of 7.5 per cent in January to April 1995, it added. Some 16 of the 20 sectors covered in the survey showed increases in output in April. *Reuter, Rio de Janeiro*

Citibank says it is not a target of Justice Department's Raúl Salinas investigation

US banks face money-laundering probe

By Richard Waters in New York

The US Justice Department has launched an inquiry into whether the US banking system was used to launder money by Mr Raúl Salinas, brother of former Mexican President Carlos Salinas.

The inquiry comes on top of investigations already under way in Mexico, the UK and Switzerland, set up to determine the source of more than $122m held by Mr Raúl Salinas in Swiss and UK bank accounts, and whether the money was transfered out of Mexico illegally.

Citibank, the US bank which handled many of the transfers for Mr Raúl Salinas, said yesterday that it "continues to co-operate fully with authorities in this matter". Officials at the New York-based bank maintained, however, that Citibank was not itself a target, or focus, of the inquiries. In a statement, it added that it had complied with all laws in its dealings with Mr Salinas.

It is an offence for a bank to transmit money if it knows that the cash came from an illegal source.

Also, banks must satisfy themselves about the source of large amounts of money that they help shift across borders.

Mr Raúl Salinas is in jail in Mexico, charged in connection with the murder of Mr José Francisco Ruiz Massieu, a former leader of the ruling Institutional Revolutionary party (PRI).

He has also been charged with "illicit enrichment", a broad allegation embracing a wide range of potential abuses. Accusations have ranged from claims that the money was the result of drug trafficking – which Mr Salinas has specifically denied – to assertions that it was paid by people looking to buy favour with the once-powerful Salinas family.

The US Justice Department could only consider bringing money laundering charges if the money was found to have been made illegally, for instance in the drug trade. Mr Salinas has maintained that he earned the money from "business deals with Mexican entrepreneurs".

Late last year the British authorities asked Citibank to block $32.7m in a Raúl Salinas account at Citibank in London.

The US bank also continued yesterday to stand behind the New York-based manager who was primarily responsible for handling Mr Raúl Salinas's accounts at the bank.

Ms Amy Elliott has worked for the bank since 1967 and "continues to be an employee in good standing", Citibank said.

It added that she remained employed in the bank's private banking unit, which handles the accounts of its wealthiest customers.

Voters unmoved by Whitewater

By Jurek Martin in Washington

The Whitewater affair does not appear to be much eroding President Bill Clinton's solid lead over Senator Robert Dole in the race for the White House, according to a clutch of new public opinion polls.

The latest New York Times/CBS News survey, published yesterday and giving Mr Clinton a 54-35 per cent lead among registered voters, even represents a fractional improvement for the president over the previous poll.

The latest Newsweek survey found the lead unchanged at 17 points (49-32 per cent), with both men down 3 points each over the span of a month. Most national polls seem to have settled into a Clinton edge of 14-20 points, also typically his margin in several key big states.

Both this week's polls were taken after Mr Clinton's former business partners in the Whitewater real estate venture and his successor as governor of Arkansas were found guilty on multiple counts of fraud.

Those verdicts appeared to give new life to the wide-ranging Whitewater investigations of Mr Kenneth Starr, the special counsel, and congressional committees, raising the prospect of further nasty surprises for the president before the November election.

Late on Tuesday a federal judge in Arkansas ruled Mr Clinton must testify, by video-tape as he had in the first trial, in the next Whitewater-related court case starting in Little Rock on June 17. Mr Starr has brought fraud charges against two local bankers, Herbert Branscum and Robert Hill, involving, among other items, alleged illegal diversion of funds to Mr Clinton's gubernatorial election campaign in 1990.

Simultaneously, Senator Al D'Amato of New York, chairman of the Senate special committee, announced, to some predictable fanfare, that the FBI had found the fingerprints of Mrs Hillary Clinton on the missing billing files of the Rose Law Firm which eventually turned up in the White House family quarters.

But hers were not the only prints found and the FBI conceded it could throw little light on the fate of the files during their two-year disappearance. Another of the six identifiable sets belonged to the late Mr Vince Foster, the former White House deputy legal counsel and partner, along with Mrs Clinton, in the Rose firm, who committed suicide in 1993.

Mr D'Amato also wants Mr David Hale, the key prosecution witness in the trial of Mr and Mrs Jim McDougal and Governor Jim Guy Tucker, to testify in front of his committee in the next two weeks. Mr Starr has agreed to this but committee Democrats yesterday baulked at giving Mr Hale the immunity from further prosecution Mr D'Amato seeks. Any appearance therefore may be in closed session.

The polls show heightened public interest in Whitewater but no inclination to make it a big factor in the presidential race. The New York Times/CBS survey put crime at the top of public concerns, replacing the state of the economy.

It also confirmed a shift in favour of the Democratic party, whose candidates for Congress were now favoured by 45-38 per cent over Republicans. Mr Dole seemed to have received no boost by announcing his resignation from the Senate.

Banker Herbert Branscum, right, and his lawyer Dan Guthrie leave court in Arkansas, after winning an order that President Clinton testify in Branscum's Whitewater-related trial *AP*

Argentina to go on with N-plans

By David Pilling in Buenos Aires

Argentina is pressing ahead with the controversial privatisation of three nuclear power stations and the creation of a nuclear waste dump in spite of protests by opposition politicians and environmental groups.

The Peronist administration, which used its congressional majority to win authorisation of the sale in a joint committee of deputies on Tuesday night, wants to sell the plants as quickly as possible.

On offer will be two completed plants, the 335MW Atucha I, designed and built by Siemens of Germany in the 1970s, and the more modern 600MW Embalse plant built by Atomic Energy of Canada. The unfinished Atucha II plant, 100km north of Buenos Aires, requires an estimated investment of $600m-$700m.

"The law contains serious contradictions and important dangers for the future," said Mr Juan Pablo Baylac, a Radical deputy. The Peronist party had pushed through draft legislation without proper discussion, an unforgivable tactic given the "strategic importance" of the issue, he said.

"The opposition is very angry with the manner, the form and the procedure with which the Peronists have dealt with this issue. They are privatising the production and manipulation of nuclear products with no type of control and without proper environmental safeguards," he said.

As well as the sale of the three plants, legislation provided for the creation of a nuclear dump, possibly in the Patagonian province of Chubut. Chubut recently amended its constitution expressly forbidding the storage of nuclear waste. The intention was to store not only Argentine waste, but also that from other countries, said Mr Baylac.

The government, which has abandoned investments in Atucha II, will try to privatise the three plants together, providing the concessionaire with cash-flow from the two working plants to complete Atucha II. Argentina, which began a comprehensive nuclear programme in the 1950s, has invested an estimated $8bn in the sector.

Mr Domingo Cavallo, economy minister, admitted that the sale would be difficult, but said there had been significant interest from European and North American companies. Canadian groups, primarily interested in Embalse, in Cordoba province, have tried to persuade the government to sell the plants separately. Atucha I, with a less common design than Embalse and in need of an estimated $150m refit to extend its life by 10-15 years, is a less attractive proposition.

INTERNATIONAL NEWS DIGEST

Action urged on risk management

Banks and securities firms should co-operate to pool data used for so-called "value at risk" computer models, used to manage their exposures to adverse movements in the markets, a report published yesterday recommends.

Commissioned by the International Securities Market Association (Isma), the eurobond market regulator and industry body, the report assesses the state of risk management practice in the wake of the collapse of Barings Bank last February.

It says that banks and firms are incurring substantial costs in making sure that the sets of market data needed for their value at risk (VAR) models are complete, consistent and reliable. At the same time many firms are reluctant to become dependent on Riskmetrics, a proprietary product developed by JP Morgan, the US bank.

The report therefore recommends that a data-cooperative – owned by the banks – should be created to provide regulatory standard data. *Richard Lapper, London*

Protests over Nigerian killing

Thousands of Nigerians demonstrated yesterday in protest at the killing of the wife of the jailed presidential claimant Chief Moshood Abiola. Mrs Kudirat Abiola, 44, senior of Abiola's several wives, was shot in the head at close range by unidentified gunmen as her car passed along a Lagos street on Tuesday.

Military ruler General Sani Abacha sent a letter of condolence to Chief Abiola's family with a high-powered delegation led by chief of army staff Major-General Ishaya Bamaiyi and including eight ministers. "It is with great shock that I received the news. . .the federal government will do *everything within its power* to unravel the mystery of Kudirat's death," the letter said.

Mrs Abiola was a prominent figure in the campaign to secure the release of her husband and to install him as *president. Reuter, Lagos*

West faces pesticide disposal bill

The western world will have to foot the bill for disposing of up to 100,000 tonnes of highly toxic pesticides held in developing countries, the United Nations' Food and Agriculture Organisation warned yesterday. The chemicals were provided by western aid agencies to combat pests such as locusts and mosquitos in developing countries. But they are now obsolete and causing health and environmental hazards.

The FAO estimates it will cost $100m to dispose of up to 20,000 tonnes of pesticides in Africa – there are no facilities for disposal in developing countries and no funds available to pay for it. Burning the pesticides in incinerators is the only safe form of disposal, the FAO says. *Deborah Hargreaves, London*

City crime 'deters investors'

Mr Wally N'Dow, secretary general of the United Nations' Habitat II city summit, warned yesterday that many cities in *the developing world were slipping into lawlessness*, jeopardising their chances of attracting the investment needed to overcome poverty. *Mr N'Dow said: "If [developing country]* cities do not work, no one will invest in them. This is a message to those people who want investment, to make sure your urban centres function. Law, services, communications [should] work so that you do not have massive crime."

He did not mention cities by name, but several Asian, Latin American and African big cities such as Manila, Nairobi and São Paulo suffer widespread violent crime *such as theft*, murder and kidnapping. *John Barham, Istanbul*

Business holding its breath for Netanyahu

Cabinet appointments will be the first clear signal of economic direction, writes **Julian Ozanne**

Mr Benjamin Netanyahu, Israel's prime minister, has his work cut out to calm investors and keep Israel's rapid economic growth on track.

In the immediate aftermath of his electoral victory last week he moved quickly to assure nervous financial markets. He promised to extend economic liberalisation, curb inflation and take measures to *enhance foreign investment.*

His statements were enough *to convert initial panic among* investors and businessmen into cautious wait-and-see. But, as with all his pronouncements, it is not clear what precisely Mr Netanyahu has in mind. "We are in a period of uncertainty," said Mr Gad Haker, head of Batucha Securities' international department. "Netanyahu has shown he can talk the talk but now he has to show us he can walk the walk."

The next few weeks will be crucial. Mr Netanyahu inherits a growing economy that has benefited substantially from new trade and investment *flows and an influx of new* immigrants. Last year unem*ployment fell to 6 per cent* from 11 per cent five years ago, *gross domestic product* expanded by 7.1 per cent and inflation fell to 8 per cent. But urgent steps are needed to curb a reverse of the inflation trend, trim government expenditure, halt a widening current account deficit, control public sector wages and speed-up privatisation.

Furthermore, Mr Netanyahu must prove that his policies will not return Israel to confrontation with its Arab neigh*bours. This would make the* political risks of investing in *Israel too high* for many.

The first clear indication will come when Mr Netanyahu completes his complicated coalition negotiations and names his cabinet. Although he has 45 days to form a government his aides said he might finish the process by June 17 when the new parliament is due to convene.

The outcome of the coalition haggling will be critical for the economic policy and the peace process. The overwhelming economic priority is to cut the budget deficit to ensure that Israel meets its target of 2.5 per cent of GDP this year. Current *estimates suggest* the budget deficit is running at 3 per cent *of GDP on an annual basis. A* spending cut of Shk3bn-Shk4bn *($900m-$1.2bn)* is vital to meet the target. This would also *make it easier for the central* bank not to have to raise its *key lending rate, currently* 15.5 per cent, in the face of resurgent inflation, projected at 13-14 per cent.

But Mr Netanyahu's coalition partners, particularly the religious parties and the new immigrants, are demanding large pay-offs from the budget to reward their constituencies. Furthermore extremists want an immediate resumption of subsidised house-building for Jewish settlements in the West Bank. If the prime minister-elect gives in to these demands the budget will be blown off *course.*

Critical to the government's *economic direction is who will* be the finance minister. Mr *Ariel Sharon, a hardline* ultranationalist revlled in the Arab world, has demanded the Treasury. The business community *is unanimous that such an* appointment would be disastrous, *particularly on foreign* investment, and has overwhelmingly signalled its preference for Mr Dan Meridor, a moderate Likud party insider.

The financial markets want Mr Netanyahu to re-appoint central bank governor Mr Jacob Frenkel, admired for his tough monetary stance in the face of high inflation.

Equally critical are appointments to big spending ministries of housing and defence.

Many economists believe Mr Netanyahu, Israel's first directly-elected prime minister, will *surprise* his critics by using his new powers to resist extortion*ate demands and show sensi*tivity to Israel's image abroad. *But few think he will do* enough to prevent an economic slide.

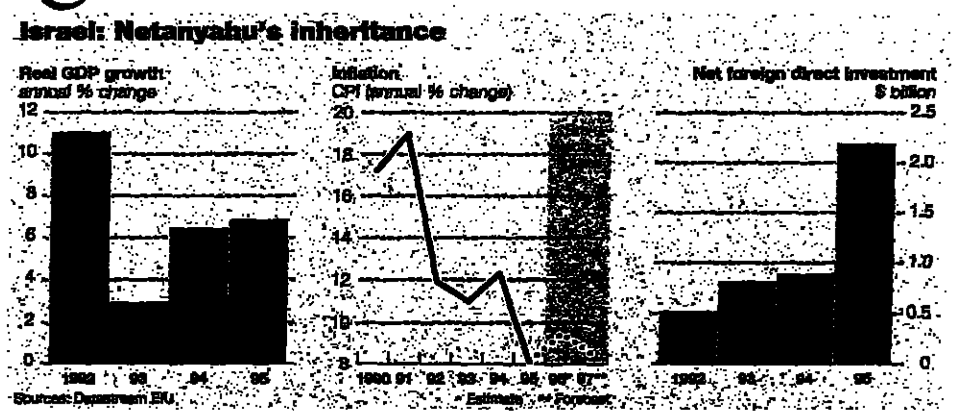
With a slowdown of Middle East *peace-making currently* the best possible interpretation *of the impact of Mr Netany*ahu's policies on Arab neighbours, forecasts are for a slowdown in economic growth to around 4 per cent in the next two years. "I don't think that is such a bad thing given the excess demand in the economy," said Mr Jonathan Katz, senior economist at Capital Holdings consultants. "How many years can we grow at 7 per cent without any slack in the labour market?"

However, according to Mr Ron Lubash, *managing direc*tor of Lehman Brothers Israel, whatever happens to Middle East peace the domestic econ*omy will continue to be driven* by new immigrants from the former Soviet Union, currently arriving at about 70,000 a year. Furthermore, *Israel's* export sector is increasingly insulated *from the peace process and, he* says, many new export markets that opened with the peace process – such as India, Burma, China, eastern Europe and Japan – will not close again.

"The high-tech economy – everything from software to telecommunications – has been a big part of recent growth and is insulated from the political geography," he said. "Many high-tech companies do the bulk of their business overseas, mainly in the US."

There is nonetheless a much more pessimistic scenario lurk*ing in the wings: it is of an* Israel heading to violent con*flict with its neighbours.*

"The nightmare is a return to the days of the 1982 invasion of Lebanon and then all bets are off," said a senior banker.



The leaders of Jordan, Egypt and the Palestinians said *yesterday they expected* Israel's new prime minister to *soften his hardline* stance on peace once in office, AP reports from Aqaba.

King Hussein of Jordan, Egypt's President Hosni Mubarak and Palestinian leader Yassir Arafat said after meeting in the Jordanian Red Sea resort of Aqaba that the election of Mr Benjamin Netanyahu posed a challenge but the peace process was not in danger of collapse.

S African TV group tunes into MPs' satellite needs

By Mark Ashurst in Johannesburg

A South African pay television company is to install free satellite receivers in the homes of *the country's* 490 MPs and senators before they draft regula*tions for the industry.*

The company, Multichoice, *will also waive subscription* fees estimated at R1m ($230,000) a year.

The move has been approved by parliament's ethics committee, although it conflicts with the position of the government-appointed Independent Broadcasting Authority which has refused similar offers from Multichoice.

Multichoice denied it was trying to win favour from politicians before new broadcasting legislation was completed. "Our objective is to educate politicians. This is an immature regulatory environ*ment...we want to give deci*sion-makers better access to *information* and help them understand the new technology," the company said.

The 16 channel digital service includes CNN, BBC World, CNBC, Sky and Bloomberg TV news and a selection of radio news services. "This is not for entertainment and it is not a gift. The equipment is to be installed at the government's request and it remains our property."

The Independent Broadcasting Authority is currently investigating the terms of the broadcasting licence *granted* in the apartheid era to Multi*choice's South African* associate company M-Net, which broadcasts a conventional terrestrial pay-TV service.

Analysts noted that M-Net had donated equipment to MPs in the last parliament. "They have a history of political patronage and MPs might legitimately ask why they should not receive the perks of their white predecessors," said one.

Murders lead Red Cross to halt Burundi operations

By Michela Wrong

The International Committee for the Red Cross (ICRC) yesterday suspended all operations in Burundi and *other* aid agencies cancelled trips outside Bujumbura fol*lowing the murders* of three Swiss ICRC employees in the north-west of the country.

The deaths mark a further escalation in Burundi's spiralling civil war, now estimated to be claiming 1,000 lives a *month. They are bound to* undermine efforts to find a negotiated solution to the crisis at talks being held in the Tanzanian town of Mwanza under the auspices of former Tanzanian president Julius Nyerere.

An ICRC spokesman in Nai*robi said the aid agency, one* of the few still running operations in *Burundi's trou*bled provinces, was reassessing the security situation following the deaths of the three men, killed when unidentified gunmen on Tuesday opened fire on their four-wheel-drive vehicle.

Non-governmental aid *organisations will today meet* to discuss implications for their operations. "Everyone is deeply shocked and stunned," said Mr John Myers, Oxfam's representative in Burundi. "No one can understand why *this has happened to the best* and most professional humani*tarian agency.*"

The men, whose vehicle was *clearly* marked with the Red Cross emblem, had gone to Cibitoke to discuss water distribution. Some 60,000 people in Cibitoke, ruled off-limits by other agencies, rely on ICRC tankers for supplies of fresh water.

As the violence in Burundi has increased, neutrality has become harder to maintain. The rebels have accused the ICRC of colluding with the military.

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NEWS: WORLD TRADE

■ 'This was not a disaster, rather an incident' ■ Only short delay to second flight

Software blamed for rocket failure

By David Owen in Paris

Arianespace yesterday insisted that Ariane 5's first commercial flight could still go ahead in January as scheduled, and said a computer software problem was responsible for the failure of the rocket's maiden flight.

Mr Daniel Mugnier, launch operations director for the Centre National d'Etudes Spatiales, the French space agency, said preliminary data suggested computers had sent wrong information to the rocket shortly after take-off causing it to change direction and break apart.

A commission set up to investigate the accident will report by mid-July. But officials indicated the problem was not as bad as might have been feared.

"We could have feared an incident on the propulsion system, but that does not appear to have been the case," said Mr Yves Le Gall, a French space agency official. "We are rather confident, as an electronic system is not the propulsion system and does not need costly tests."

He added: "This is not a disaster, but rather an incident. It will not delay the second mission for a long time."

This second mission, originally scheduled for September, will, like the first flight, carry a non-commercial payload. Thereafter, Arianespace – the France-based organisation that has more than 50 per cent of the world market for commercial satellite launches – plans to operate the new rocket alongside its successful predecessor, the Ariane 4, for a transition period of three years.

Arianespace yesterday insisted that its plans to launch 18 satellites in 1997 would not be affected even if the Ariane 5 was not ready as soon as expected.

"The objectives of Ariane 5 are still the same," said Mr Charles Bigot, Arianespace's chairman, underlining that the company's commercial launch plans for 1996 were not affected by Tuesday's explosion since only Ariane 4 flights were scheduled.

Senior French politicians, including President Jacques Chirac, meanwhile voiced their continued support for the Ariane programme.

"I am at their side, sharing their disappointment today, just as tomorrow I will share their pride when Ariane 5 is completely ready," Mr Chirac said.

The French Space Agency's Mr Le Gall said the accident would not result in Europe pulling out of space. "Europe cannot abandon the conquest of space," he said. "We will continue developing the rockets that we need to launch big communications satellites . . . we will forge ahead."

Arianespace confident of fending off rivals

By John Thornhill and David Owen in Paris

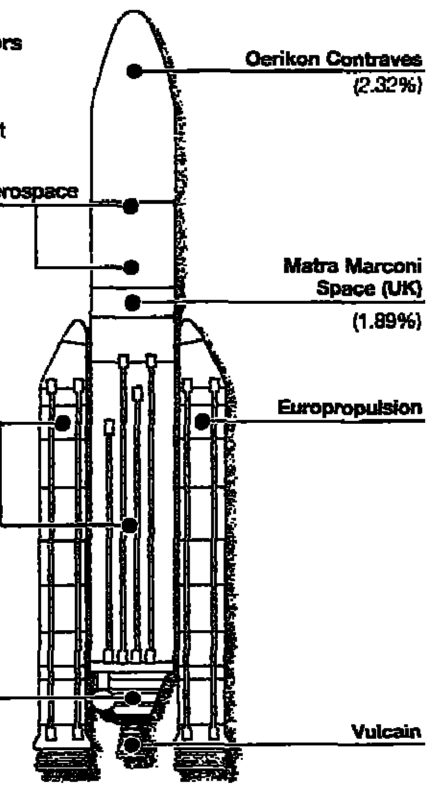
The disastrous test launch of the new Ariane 5 will cause an inevitable delay in the European Space Agency programme, but does not necessarily mean that Arianespace will lose its dominance in the £1bn-a-year launch market. Arianespace can fall back on the excellent launch record of the more conventional Ariane 4 rocket on which it has built its success while the Ariane 5 programme is salvaged and rescheduled.

Arianespace has launched 86 Ariane rockets since 1988, of which 58 have been on Ariane 4 rockets. On June 14, Arianespace is to launch an Intelsat satellite on an Ariane 4, and one or two launches every month are scheduled for the rest of the year.

However, the Ariane 4 will be obsolete within 10 years as payloads get heavier and any delays in the Ariane 5 programme will give a host of competitors an opportunity to advance their share of commercial satellite launches.

The number of global launches a year is expected to stay at around 30 until the year 2000, according to market forecasts. Jostling with Arianespace for a share of this market are US, Russian, Chinese, Japanese and Indian launchers which may reap some benefits from the delays in the Ariane 5 programme. Earlier this year, Asiasat, the Hong Kong-based satellite consortium, opted for a Russian Proton rocket to launch its Asiasat 3, after a new-generation Chinese Long March rocket blew up. The move, motivated by the availability of launch slots, marked the first time that Asiasat did not use a Chinese rocket.

Arianespace's competitors have also had their fair share of setbacks. Two of China's Long March launchers have been destroyed on the launch pad and another exploded 20 seconds after launch in February. The Russian satellite launch programme has been experiencing problems of its own. Last month a Soyuz-2 rocket carrying a military satellite exploded minutes after launch. Two months earlier, a modified SS-25 rocket also exploded on take-off destroying three communications satellites from Russia, Israel, and Mexico.



Incorporated in 1980, Arianespace has 53 European shareholders, most of them aerospace manufacturers and engineering companies. Some of the shareholders help build the Ariane rockets. The Ariane 5 design is a radical departure from previous Ariane series rockets with its single central cryogenic motor burning liquid hydrogen and liquid oxygen and two large solid-fuel strap-on boosters.

Ariane 5 was designed to maintain western Europe's lead in launching heavy satellites and can launch satellites of 6.8 tonnes and double satellite payloads totalling 5.9 tonnes. Work is under way to increase the rocket's launch capacity by more than a tonne by 2002.

Insurers may raise premiums

By Ralph Atkins, Insurance Correspondent

The Ariane 5 rocket failure caused reverberations in the international insurance market yesterday, even though it was not insured and the loss will be borne by the European Space Agency. After Tuesday's disaster underwriters are likely to take a more careful approach to commercial launches anywhere and insurance premiums may rise.

The European programme has a relatively good reputation among satellite underwriters. "If they have got it wrong, we're going to be that much more cautious," said Mr Simon Clapham, underwriter at Marham Space Consortium at Lloyd's of London. On the other hand, the Ariane 5 failure might persuade backers of future launches to take out more insurance.

A wider issue for the insurance industry is the huge payload of the Ariane 5. It can carry cargoes with a total insured value of around $550m and as the total capacity of the space insurance market is estimated at around $630m, most space insurers would have to take part in programmes for a commercial launch.

Beijing reacts to US drive on piracy

By Tony Walker in Beijing

Mr Lee Sands, the US assistant trade representative, arrived in Beijing yesterday for talks aimed at averting US sanctions over Chinese abuses of intellectual property rights.

Mr Sands' arrival in China coincided with Beijing's announcement it had launched a fresh crackdown on pirate producers of such items as compact discs and computer software.

The US has threatened to impose punitive tariffs on $2bn worth of Chinese imports if it does not uphold a February 1995 agreement to counter piracy. Beijing has said it will retaliate with "tit-for-tat" sanctions on American products.

The official Xinhua newsagency said a drive to eradicate copyright piracy was being linked to the "Strike Hard" campaign against crime.

Enforcement efforts were being concentrated in southern Guangdong province in southern China, where counterfeiting is rife.

"The focus for the remaining seven months of the year will be a crackdown on pirated goods and copyright theft in the audio-visual field, as well as the manufacture and sale of pornographic material," Xinhua said.

The news agency also said companies operating compact disc and CD-Rom businesses must re-register their activities before July 31, and a nationwide investigation of the electronic publication market would be launched soon.

US officials refused public comment on Mr Sands' discussions but privately they are cautiously optimistic that agreement can be reached on implementing the 12-month-old agreement to counter piracy. The US has presented China with a "road map" outlining steps required to avoid a trade war, including the closure of factories engaged in the counterfeiting.

Washington is also demanding that China tighten customs procedures against the export of pirate items such as CDs, CD-Roms, and video cassettes, which are pouring into Hong Kong and other Asian centres.

Washington has given China until June 17 to comply with the agreement. In past trade disputes the two sides have achieved compromise at the last moment, and this year appears to be following a familiar pattern.

But US businessmen and trade officials fear that testy Sino-US relations over such issues as Taiwan, human rights and arms proliferation will complicate matters.

Mr Mickey Kantor, the US commerce secretary, said in a speech on Tuesday the US was looking for China to take decisive action against copyright theft.

"We want clear, decisive, concrete action on the part of China to implement this intellectual property rights agreement," Mr Kantor told the National Press Club.

"It is not only in the interests of the United States, it is in the interests of the rest of the world and in the interests of China."

Indonesia tries to mollify car critics

By Manuela Saragosa in Jakarta

The Indonesian government has watered down its national car programme following fierce criticism from foreign vehicle manufacturers.

The controversial national car programme exempts Timor Putra Nasional, a company owned by President Suharto's youngest son, from import duties and luxury sales tax to develop a "national" car – christened the Timor – in co-operation with South Korea's Kia Motors.

Now, a new regulation will remove luxury sales taxes – averaging about 20 per cent – from commercial vehicles and cars of 1,600cc or less provided local content is at least 60 per cent.

The move is viewed as an attempt to defuse the criticism, particularly from the Japanese, who dominate Indonesia's car market. Tokyo said last month the national car policy breached Indonesia's commitments under the World Trade Organisation.

"It's a face-saving measure. What they're doing is backtracking gracefully," said a Jakarta-based analyst.

No vehicles manufactured in Indonesia meet the 60 per cent local content requirement. However, Astra International, Indonesia's largest manufacturer, which works with a number of Japanese manufacturers, produces vehicles with more than 40 per cent local content and expects to meet the 60 per cent requirement within a few years.

Astra manufactures Indonesia's most popular vehicle, the Kijang, in a joint venture with Japan's Toyota, and the van has 51 per cent local content.

Analysts estimate the Kijang will increase its local content to 60 per cent within three years. Under the national car policy, the Timor must have 60 per cent local content in its third year of production to continue to qualify for tax and import duty breaks.

That will allow the Kijang to compete eventually with the Timor on an equal basis. The Kijang is already exempted from import duties on components because it meets a 40 per cent local content requirement.

Another amendment to the national car programme will allow the Timor to be produced in South Korea in the first year because Timor Putra Nasional has not found any assembly plants in Indonesia to do the job.

Mr Tunky Ariwibowo, the minister for trade and industry, said Indonesian workers would be sent to South Korea to manufacture the Timor – modelled on Kia Motor's Sefia – and that Timor Putra Nasional would be allowed to import up to 45,000 complete cars from South Korea tax-free for the Indonesian market this year.

● Indonesia has unveiled a fresh deregulation package which eliminates import surcharges on a range of products and refines the tariff reduction schedule announced last year in compliance with its commitments to free trade agreements.

Another week, another financial failure...

Who in Japan picks up the bill for the collapses is the question that really matters, says Gerard Baker

Another week, another financial collapse for Japan's tormented authorities to deal with. The failure on Monday of Shin Kyoto Shinpan, a finance house crippled with debts of around Y350bn ($3.2bn), came as an inconvenient reminder of the continuing fragility of the banking system.

It was the seventh biggest bankruptcy in Japan since the second world war and added another loop to the Gordian knot in the centre of that system.

The timing was excellent, though, from at least one perspective. It concentrated attention on the imminent climax to the government's protracted efforts at financial reform. Also, it pointed up the limited nature of those much-vaunted remedial efforts.

Later this week, the Japanese parliament will be asked to vote on a series of bills put forward by the government. Prompted by near-panic at the chaos of the past year, they are intended mainly to lay the foundations for a sounder financial system in future.

The measures that parliament has spent the last month considering are essentially fourfold. The three least controversial elements are:

■ The establishment of a new vehicle for disposing of bankrupt institutions, modelled loosely on the lines of the US Resolution Trust Corporation;

■ A revamping and refinancing of the under-funded deposit insurance system;

■ The setting up of an early-warning device to nip future failures in the bud.

The fourth element, not strictly up for debate, but still uncertain, is the now notorious plan to spend Y685bn on liquidation of the country's bankrupt housing loan companies.

The reforms are an elaborate quid pro quo. In exchange for being allowed to spend the taxpayers' money, the government is promising lawmakers it will clean up the financial system. But very little evidence exists that the measures proposed will resolve the crisis.

The three institutional changes have been widely and properly praised by international observers as a helpful means of addressing some of the longer-term problems that will arise.

The establishment of a so-called resolution trust corporation, a cumbersome structure intended to put in place a reasonably consistent formula for dealing with future bank collapses, is a necessary precondition of an orderly disposal of the detritus of financial collapse.

The plan to raise deposit insurance premiums is also an essential measure: for too long Japanese banks have paid very small amounts towards the cost of protecting their depositors – less than a 20th of that paid by some US banks, for example.

The early warning system, which will improve some aspects of supervision, may also be effective in limiting the shock of future banking collapses. But the measures do not even address the much bigger immediate problems.

Further losses could add up to as much as Y30,000bn on top of almost Y20,000bn written off by banks

While the bigger banks have been gradually improving the condition of their balance sheets in the past year or two, the asset-quality problems at thousands of smaller institutions have been getting worse.

Three distinct groups are most vulnerable: credit associations, four of which have failed in the past 18 months, non-banks, such as Shin Kyoto, and agricultural co-operatives.

Many more credit associations are set to go bankrupt. According to the finance ministry, the sector as a whole still has over Y2,000bn in bad loans – 12 per cent of total loans.

Ministry officials have already acknowledged that their proposed reforms will not resolve this coming crunch.

The non-banks are an even bigger headache. For these, the financial changes have little to offer. No one knows precisely the amount of bad loans they hold, but educated guesses put the figure as high as Y15,000bn.

The agricultural banks – which, in a chilling reminder of the inter-related nature of these things, have also lent more than Y7,700bn to the non-banks – are another whole category of hobbled institutions.

They may have as much as Y12,000bn in total non-performing loans. Again, nothing in the government's immediate plans will do much to ease this approaching crisis.

In all, therefore, the further loss to the financial system could be as much as Y30,000bn, in addition to the almost Y20,000bn already written off by banks.

Given the inability of the smaller institutions to finance this sum, there are only two sources for the money: larger banks or the government.

The bigger banks, already been pummelled by their own bad loan losses, are adamant that, while they will accept some limited responsibility for the losses at their smaller brethren, they cannot afford to take on the whole cost.

Meanwhile, the prospect of the government intervening to help out is just as remote. For six months it has faced the wrath of the public over its decision to spend a mere Y685bn on bailing out the housing loan companies.

This conundrum of who will pay the ultimately very expensive bill will not be addressed in the parliamentary debates this week. Yet it is the only one that really matters.

Taiwan premier's reappointment irks opposition

By Laura Tyson in Taipei

Taiwan's newly elected President Lee Teng-hui yesterday moved to reappoint his premier, Mr Lien Chan, despite criticism by opposition parties.

They charge that retaining Mr Lien as premier violates the country's constitution, as he is also vice-president and this concentrates power in the hands of the president.

There is also debate on whether his appointment must be confirmed by the Legislative Yuan, or national legislature. Mr Wu Poh-hsiung, presidential chief of staff, argued this was unnecessary, but opposition lawmakers asserted parliament had the right to screen cabinet appointments.

"Since this is not another nomination of a premier, of course it does not involve asking the Legislative Yuan to exercise its endorsement," Mr Wu said. He cited two precedents in which premiers were retained without parliament's approval after having been elected vice-president.

Critics argued that such things should not be tolerated under democracy. "In this new age, we should change to new things, not continue with old ones," said Mr Chang Chun-hung, acting chairman of the main opposition Democratic Progressive party.

Mr Wu, a popular politician who was one of several figures tipped for premier, said without elaborating: "We hope the public can understand the current situation". Mr Lien and the other members of the Executive Yuan formally submitted their resignations before the May 20 inauguration of the country's first democratically elected president and his running mate.

■ Taiwan's national legislature yesterday passed a government budget of T$1,196bn ($43bn) for the financial year ending June 30 1997, a spending rise of 5.4 per cent from a year earlier but below the 8.8 per cent increase sought by the government, Reuter reports.

The defence budget was pared to T$254.1bn, 21.3 per cent of total spending, from T$261.16bn the previous financial year. The government's proposed budget had called for a 3.8 per cent rise in military spending. The government can draw on an extra-budgetary defence fund of T$166.2bn to pay for purchases of fighter jets and other equipment.

The budget was approved early yesterday after a May 31 deadline had been extended. The budget review process was spread over two months marked by disputes and backroom bargaining among parties.

Manila tax drive suffers setback

By Edward Luce in Manila

The Philippines' campaign to clamp down on alleged tax evasion was dealt a heavy blow yesterday when the Supreme Court dismissed a government appeal which would have paved the way for the biggest tax prosecution in the country's history.

The ruling by a division of the supreme court is a setback for the government's wider tax reform efforts. The bench threw the case out on a technicality by 3-2.

Mr Lucio Tan, chairman of Philippine Airlines, whom the government alleges evaded 25.6bn pesos ($977m) in taxes between 1990 and 1992, insisted his legal rights had been violated when state lawyers failed to give him the statutory 30 days' notice before launching their investigation into his business affairs in 1992. Mr Tan denies the allegations. The ruling casts legal doubt on the validity of more than 100 other tax cases at present before the courts.

Most of the cases, including two against members of the family of the late President Ferdinand Marcos, could be thrown out on the same 30 days' rule. The government will now attempt to appeal to the full bench of the Philippines supreme court.

The ruling follows an extraordinary move by the divisional court on Tuesday when it issued a statement denying anonymous allegations in a "poison pen" letter that it had been "lavishly bribed" by Mr Tan to vote in his favour.

The ruling also brings into question the government's attempt to push its set-piece tax reform bill through congress.

The bill, which seeks to broaden the tax base and lower tax rates, has been opposed by various business groups.

Mr Tan has been an influential campaigner against the legislation. He is widely thought to be opposed to a clause which would scrap ad valorem taxes in favour of specific excise taxes.

The government's case against the businessman rests on allegations that he under-declared production costs at his tobacco and beer companies by setting up "ghost" marketing arms to minimise his ad valorem tax payments.

The House of Representatives, which has already diluted elements of the bill and has argued in favour of retaining a modified ad valorem tax, is thought unlikely to enact the bill in the form submitted by the government.

The government estimates that 37bn pesos is evaded in taxes yearly. The original tax bill would enable it to generate recurring fiscal surpluses, it says.

Ministers yesterday expressed dismay at the wider implications of the supreme court ruling. "We want to take away the taxation system that favours some over others," said one.

Lucio Tan: denied the allegations and insisted his legal rights had been violated

Logging row hits Cambodia loan

By Ted Bardacke in Bangkok

The International Monetary Fund has delayed a scheduled $20m loan disbursement to Cambodia after expressing concern over lack of transparency in the sale of state assets, particularly logs.

Mr Michel Camdessus, IMF managing director, has warned the country's two prime ministers that, if the government does not act to increase transparency, the Fund's three-year aid programme could also be discontinued.

The temporary freeze comes ahead of an international donors' meeting next month in Tokyo, where the Cambodian government will ask for another $1bn in assistance. Without endorsement of its management of the economy from the IMF, the government is likely to encounter severe resistance from donors. Cambodia has already received nearly $3bn since a 1991 UN-sponsored peace accord.

IMF concerns about the destination of receipts from logging have increased after it was alleged agreement had been reached with the Thai government to export 1m cubic metres of already-felled logs of timber via Thai logging companies.

The agreement was said to have been reached without the knowledge of the Cambodian national assembly and in contradiction of a government ban on the export of whole logs.

A large proportion of the logs are said to have originated from Cambodian territory controlled by the Khmer Rouge, which stands to receive a percentage of the proceeds, according to the environmental group Global Witness which has obtained documents detailing the deals.

"We are trying to get the government to articulate a forestry and logging policy," said Mr Joshua Charap, IMF resident representative in Phnom Penh. "We have never seen an articulation of what this (logging deal) implies for the treasury or the national budget."

The IMF wants a "set of measures" implemented, not just explanations, said Mr Charap.

The value of the timber allegedly to be exported is $50m-$100m. Cambodia's reported 1996 budget revenue, which does not include contributions from these logging sources, is about $320m. Cambodian officials claim the deals were only "in principle" and have not yet gone into effect. They argue that the logs would rot if not milled immediately.

They say the only way to ensure the government receives logs revenue is to deal with the Khmer Rouge which would sell the logs to Thai companies with or without government approval.

ASIA-PACIFIC NEWS DIGEST

OECD pressure on South Korea

The OECD yesterday criticised South Korea's economic policy only weeks before it must determine whether to accept Seoul as a member of the club of advanced industrial nations. The report, by its economic and development review committee, said Korea must liberalise its financial market further and reduce government intervention in the economy if it is to maintain its record of strong economic growth.

But the report said long-term prospects were good; the economy could grow 7-8 per cent over the next few years, producing an economy comparable in size to Spain and Canada, with a doubling of per capita income by 2001. Korea had made progress in financial liberalisation since 1993, but domestic deregulation had proceeded faster than relaxation of controls on cross-border capital transactions.

This had prevented its financial markets becoming fully developed. Korea should concentrate on abolishing low-interest subsidised loans for industry and remove barriers between banks and non-bank financial institutions to strengthen the banking sector. Recent efforts to cut South Korea's high interest rates would boost investment and income, but carried risk of higher inflation. *John Burton, Seoul*

Seoul opposition boycott

South Korean opposition parties yesterday boycotted the opening of the National Assembly in protest against the government's recent recruitment of independent MPs to gain a parliamentary majority. The ruling New Korea party narrowly lost parliamentary control in general elections in April, but subsequently regained a majority by recruiting 12 MPs to give it 151 seats in the 299-member National Assembly.

The two main opposition parties accused the government of creating an "artificial" majority through its post-election tactics and refused to elect a speaker of the National Assembly, which prevented parliament from assuming its normal duties. *John Burton*

Philippine inflation falls

Philippine inflation fell for the second consecutive month in May, from 11.3 per cent in April to 10.4 per cent, and is expected to drop below double digits in June. The slower pace of price rises in the housing, food and beverages and building sectors, which together make up the bulk of the consumer price index, accounted for the sharp drop in May.

Government economists, who last year failed to predict the jump in inflation from 5.4 to 11.8 per cent in October owing to the doubling of rice prices, say inflation will fall 8 per cent by December while the average for the year would be within International Monetary Fund targets of 7.5-8.5 per cent. The stock market reacted positively to yesterday's figures, closing 24 points, or almost 1 per cent, higher at 3,239 and about 100 points below its all-time high. *Edward Luce, Manila*

Cook Islands faces bankruptcy

The Cook Islands, the small South Pacific island nation, faces bankruptcy unless urgent aid is given, as its population of 20,000 try to service a national debt of over $100m, a meeting of prospective donor nations was told this week.

The crisis meeting was held in Fiji, after the Cook Islands defaulted on debts to the Pacific state of Nauru and rescheduled loans from the Asian Development Bank. The islands had earlier stopped loan payments to Italy, which had backed the building of a hotel said to be responsible for much of the debt, after disputes over costs.

The Cook Islands is willing to implement economic reforms in exchange for aid. Officials said their government needed $19m, including $7.4m to lay off about two-thirds of the government's 3,000 employees. Yesterday, the ADB announced the government was willing to reduce its departments from 52 to 22, improve its accounting measures and allow greater overseas investment. Some state-owned assets will be sold. The donor nations, including Japan, New Zealand, France, the US and China, agreed to give the islands 12 months to reform. *Richard Adams, London*

US businessman held in China

A US businessman, Mr William Chen, has been detained in Shanghai for allegedly importing prohibited goods into China, but officials have refused to specify the precise nature of the charge, a US consulate spokesman said yesterday.

Xinhua news agency reported the detention in a brief dispatch, saying Mr Chen had been picked up on Monday by public security bureau (PSB) personnel after he had "escaped the supervision of Chinese customs".

Mr Chen, a Chinese-American, was detained "under strong suspicion of importing to China goods which the People's Republic of China strictly prohibits," the agency said. The spokesman said a consulate official had a "fairly short meeting" with Shanghai public security officials yesterday.

Shanghai PSB officials declined to confirm the detention. Yesterday's announcement came a day after a US grand jury indicted 14 people and a Chinese-owned corporation on 30 charges of smuggling AK-47 assault rifles into the US from China. *AFP, Beijing*

Soldiers take the lead in Laos economy

Ted Bardacke on military men making things work

The future of the Lao economy can be seen from the hundreds of logging trucks passing by a new customs checkpoint in the heart of the forest near Lak Sao, a boom town along the main road between Thailand and Vietnam. Lak Sao is the headquarters of the Mountainous Area Development Company, or BPKP, and the lavish way station, which the company built at a cost of more than $500,000, is a crucial piece of infrastructure the financially strapped Lao government simply could not afford.

Given responsibility for development in central Laos, BPKP does other things for the government. Presided over by the French-trained Major General Cheng Saygnavong, it is logging, sometimes by helicopter, hundreds of square kilometres of lush forest in an area expected to be drowned by a massive hydro-electric project.

Through its 32 different business units, BPKP also operates wholly owned and joint-venture operations in tourism, construction and trading and has government contracts to build six roads in the capital of Vientiane. The company was recently given control of the state-owned Lao Mining Service Company, responsible for overseeing mining operations in this mineral-rich country.

While BPKP works under a direct mandate from Mr Khamtay Siphadone, the prime minister, the company is controlled by the Lao military, of which Mr Khamtay is a former commander-in-chief. With a turnover last year that diplomats estimate between $100m and $150m, it accounted for about 10 per cent of the country's entire gross domestic product and is a symbol of how Lao economic development is increasingly being dominated by the country's armed forces.

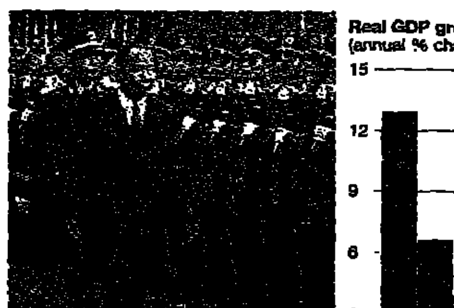
The formula is not new. All of Laos's neighbours – China, Vietnam, Cambodia, Thailand and Burma – have at times handed their militaries huge economic responsibilities.

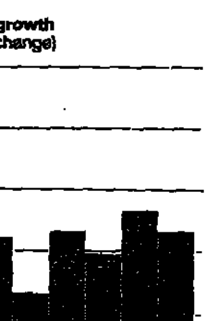
But the Lao case is striking because it stems from the belief that the military is the only institution competent enough to manage a bungled economic reform process and coincides with the virtual takeover of the state by the military at the Communist party's congress recently.

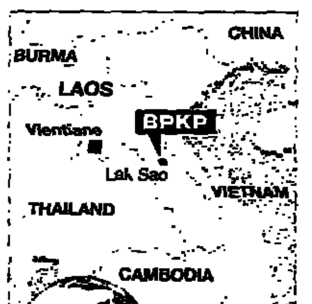
"The feeling is that where you have military men in charge things work," says a Lao journalist. "Gen Cheng's success is one of the reasons for that feeling."

But critics charge that by turning over such huge responsibilities to BPKP, lines of authority and accountability are dangerously blurred. In the area granted to BPKP, where it used to run a prison camp and has cited security objectives as one of the justifications for its work, officials from provincial governments, the forestry department and the government's own environmental watchdog agency complain they have no control over and little information about BPKP's activities.

Laos: the business of the military







Yet the government is already attempting to replicate BPKP's successes by creating two more military-controlled companies to take charge of development in other areas. A company called Dafi looks after the south, while the Agriculture and Forestry Development Import-Export Company controls the remote northern region. Both concentrate in the key areas driving economic growth in Laos: construction, tourism, trading and agriculture, particularly logging.

And earlier this year the Ministry of Defence, through the army's Department of Logistics, got directly into the act. It took a 25 per cent stake in the country's largest non-power generation project to date, a $211m hotel, marina and casino complex spread out over 18,000ha just 90km from Vientiane to be developed by the Syuen Group of Malaysia.

This joint-venture, along with the party congress where the military eased out some technocratic reformers, has potential investors taking notice.

"There is a logical nexus here," says an Asian diplomat. "If investors need approval from someone in a high position and those high positions are occupied by military men, then a lot of companies are going to have to take a look at involving the military in their projects."

Momentum for a military takeover grew last year when poor management of the economy led to inflation of 19 per cent and a corresponding devaluation of the currency, the kip, in the midst of growth of more than 7 per cent.

The root cause of inflation, says UNDP senior economist Mr Romeo Reyes, is a budget deficit of more than 10 per cent of GDP. Revenue is hard to come by because there is no coherent tax collection system. A new tax law was passed two years ago but there are still no regulations to enforce it, he says.

As a result, "you've got 600 investment projects going forward and the government doesn't have a clue as to what they are earning," says a long-time foreign resident who has a government contract. "Giving the projects to the military gives them some control over what is going on."

IRA deals blow to peace process

By John Kampfner, Chief Political Correspondent

Prospects for political progress in Northern Ireland were dealt a serious blow last night after the IRA warned it would never hand over any weapons before a final settlement.

The IRA statement – its most pessimistic assessment since the resumption of violence last February – was compounded by last-minute hitches between the UK and Irish governments over an agenda for all-party talks next week. Mr John Major and Mr John Bruton, the two prime ministers, were preparing to talk by telephone last night in a final attempt to resolve differences over a role for Mr George Mitchell, the former US senator.

A deal had been signalled earlier in the day following seven hours of talks between senior ministers. But the agreement began to unravel soon after, with both sides privately accusing the other of reneging on it.

A British official said failure to agree could lead to a postponement of the negotiations, which are due to begin in Belfast next Monday. In the past, however, the governments have managed to bury differences at the last moment.

Mr Bruton stopped over in London on his way to Dublin from an official visit to Bonn, for talks with Mr David Trimble, the Ulster Unionist leader.

Contingency plans are being made to prevent any disturbances outside the venue for the talks, which Sinn Féin are almost certain to be excluded from. Both governments continue to insist on a restoration of the IRA ceasefire as a condition for Sinn Féin participation.

The Irish believe that if Mr Mitchell is allowed to run the talks, including the most important section which deals with a future relationship between the Irish republic and Ulster, the IRA might yet soften its position.

British ministers want to confine Mr Mitchell's role to the opening plenary session, and to the sub-committee that will look at the issue of paramilitary weapons.

The inter-Irish element would instead be handled by General John de Chastelain of Canada. He was a member of the three man team headed by Mr Mitchell whose report last January suggested six principles of non-violence to replace the UK's insistence on a prior handover of IRA weapons. However, Mr de Chastelain is seen by the British as more sympathetic to Unionist concerns. "This is not a trivial point," a senior UK official said. "The fear is that Mitchell could change everything, and give the talks a spin which people here as well as Unionists couldn't live with."

The problems between the governments over the talks threatened to overshadow a first official visit to the UK by Mrs Mary Robinson, the Irish president.

In its statement, the IRA said the British government's position had hardened. "The likelihood of any IRA ceasefire is remote in the extreme," it said.

Old Comet jets may get new lives

By Bernard Gray, Defence Correspondent

The unlikely prospect of a new generation of Comet aircraft taking to the skies has received a boost with British Aerospace offering to build advanced versions of the famous 1950s airliner for export as a maritime-patrol aircraft.

BAe has teamed with Boeing of the US to offer to refurbish the Royal Air Force's existing Nimrod maritime patrol versions of the Comet in a £2bn ($3.1bn) Ministry of Defence competition to be decided this summer. Now the two companies have joined US aircraft manufacturer McDonnell Douglas to export new Nimrods.

The agreement is part of a marketing battle to persuade the MoD that its choice of maritime-patrol aircraft offers export opportunities for UK companies. BAe and Boeing are competing against the General Electric Company and US aerospace giant Lockheed Martin for the contract.

GEC has offered an electronics package for the submarine-hunting aircraft to be fitted into the Lockheed Orion aircraft, itself a 1950s design and the aircraft used by the US and Japanese navies. GEC says its bid for the UK competition offers greater export prospects because its latest generation of submarine-hunting electronics could be fitted to existing or new Orions sold around the world.

It also maintains that its UK-designed system would bring more work to the UK than the BAe-Boeing bid, which is largely based on US electronics.

BAe says the task of integrating the electronics into the aircraft is comparable to that in the Eurofighter, and it is the only UK company up to the complex job.

BAe and Boeing have struggled to show that they could export their system, because the 28 Nimrods in use with the RAF are the only ones flying. The offer to build new versions is an attempt to get around this problem.

The MoD has been sceptical about export prospects for either system, however. The GEC system is apparently more exportable, but the MoD believes the US and Japanese navies, the biggest users of this type of aircraft, will develop the next generation of electronics themselves rather than buy from the UK.

In the final round of bidding for the UK competition, which has just closed, the BAe refurbishment offer is thought to have proved cheaper than the GEC new aircraft bid, putting the BAe-Boeing team ahead.

Some in the MoD believe the US and Japan will not upgrade their propeller-powered Orions, but will buy jets.

The prospect of new Nimrods, the only jet used for submarine-hunting, would seem more realistic. Industry insiders still suspect, however, that the US will choose to develop its own jet aircraft for the job, or adapt existing US jets for the task, in spite of the extra costs involved.

EC threatens UK over beef

By Caroline Southey in Brussels, George Parker in London and Robert Graham in Rome

The European Commission is expected to stop co-operating with Britain on the terms of a framework agreement to lift the ban on British beef, unless Britain gives ground in its campaign to block EU business.

Signs that the Commission was losing patience with the UK government emerged after Commissioners yesterday decided to ease the ban on exports of three British beef by-products: gelatine, tallow and bull semen. But the decision was a close call.

The easing of the ban was followed by a warning from Mr Jacques Santer, Commission president, that Britain's policy of non-co-operation in the European Union stood in the way of a wider deal on lifting the ban on British beef - a message he intends to reinforce in a personal appeal to Mr John Major, the prime minister.

Mr Santer's message was triggered by the anger of a majority of Commissioners, who argued forcefully yesterday against easing the ban until the UK government stopped blocking EU business.

"It was very close. It nearly went wrong. The Commissioners don't like this tactic of blackmail," said one EU official, adding that "the Germans are raising the temperature."

EU officials said the Commission would "not co-operate on drawing up the framework" unless Britain made a "significant gesture" over its policy of non-co-operation. "Britain has to de-escalate its action. We want a clear signal from London. If not, the Commission will not be prepared to work on the framework," an EU official, adding that all eyes were on a meeting of foreign ministers next Monday.

There is virtually no possibility of Britain reaching agreement on the framework with the other 14 member states unless it has the Commission's support.

As the pressure grew on Britain to drop its non-co-operation policy, Mr Santer hinted that the Commission could take legal action if the UK persisted with its campaign. He attacked the "manifest and deliberate policy of obstruction" which he said was against "both the letter and the spirit of the treaty". Member states could not be allowed to "duck their responsibilities", he said, adding that they had to remember their obligations under the Treaty of Rome.

He called on the British government to "appreciate what the Commission has done", adding that "we have made an important gesture of solidarity. Solidarity is not a one-way street. It is a two-way street."

The UK government plans to announce a scheme on Monday for collecting and storing livestock feed made from animal remains, which is thought to spread bovine spongiform encephalopathy, or mad cow disease. Ministers said that anyone in possession of such feed from the end of July would be committing a criminal offence and could be fined up to £5,000 ($7,600).

Britain has to show other European Union countries that it is taking tough measures to eliminate BSE so that it can achieve a timetable for lifting the ban on beef products.

The use of animal remains in feed for pigs and poultry was banned on March 29 at the onset of the latest crisis over BSE. Meat and bonemeal have been excluded from cattle and sheep feed since 1988. The government estimates there are 6,000 tonnes of contaminated feed at mills and manufacturers, but there are no reliable figures for the volume held on farms.

Mr Jim Reed, the director-general of the UK Agricultural Supply Trade Association, said it could cost up to £50 a tonne to collect and dispose of the feed from large mills. Feed companies have already lost £1m in value on feed they cannot sell or use following the ban. The government will pay for collection and storage of the feed prior to incineration.

Feed collection, Page 6

CBI warns of beef row damage

By Stefan Wagstyl in London

The CBI yesterday increased pressure on the government to secure an early end to the beef dispute with the UK's European partners by warning that it was harming British business.

"Let's not kid ourselves. Careless talk of Britain leaving the EU will cost jobs," said Mr Niall Fitzgerald, the chairman-designate of Unilever, the Anglo-Dutch food group, and chairman of the CBI's Europe Committee.

Speaking at a CBI conference attended by Mr Michael Heseltine, the deputy prime minister, Mr Fitzgerald said: "This affair has not helped British business in Europe and, if continued, it would be harmful and disruptive to those of us who represent the more than 50 per cent of British trade which is conducted in Europe."

Mr Fitzgerald's remarks contrasted sharply with the CBI's position two weeks ago, when officials declined to comment on the so-called beef war's possible impact on British business.

CBI officials indicated yesterday that the employers' body had decided to enter the debate because of growing fears that arguments over beef were damaging Britain's wider business interests.

Supporting Europe: Sir Colin Marshall, CBI president, Wim Kok and Michael Heseltine Colin Beere

Speaking after Mr Fitzgerald, Mr Heseltine said he welcomed the Unilever executive's remarks. Mr Heseltine made no attempt to hit back directly at the implied criticism of government policy. He said that Britain was protecting its interests as any nation might. He condemned as "offensive" comparisons between the beef dispute and images of "British troops fighting in the trenches and Spitfires dogfighting in the skies over Europe". He said the UK had to remain at the heart of Europe so that it could influence its development.

Earlier, Mr Fitzgerald had urged the UK to stay at the heart of Europe. He condemned the idea that Britain could leave the EU and still retain access to the single market like Norway or Switzerland.

Mr Fitzgerald said that the UK's "increasingly semi-detatched role in Europe" was ironic because Britain was winning intra-EU debates on competitiveness, deregulation and the single market.

Mr Wim Kok, the Dutch prime minister, urged the UK to end its policy of non-cooperation in the EU and negotiate a settlement of the beef dispute with its European partners. Seeking to allay British fears about a possible loss of national identity in the EU, Mr Kok said: "Building Europe does not imply demolishing the nation state."

The conference, Business in Europe, was the first of a series of events planned by the CBI for the coming months to promote a more positive image of the EU and to encourage debate.

Climate to feature in water forecasts

By Leyla Boulton in London

The Environment Agency revealed yesterday that it planned to factor climate change into its projections of water supplies, following last summer's drought.

Mr Jerry Sherriff, the agency's head of water resources, said that climate change was "just one factor to take into account" in addition to water companies' progress in tackling leaks, which last year lost a quarter of supplies.

He told a parliamentary inquiry into the recent water shortages that it was not possible to quantify the effects of climate change but that the agency would have to "make a pragmatic judgment". The agency is likely to have an indirect impact on the sorts of new capital investment companies are allowed to make.

This is one of the first times that global warming – a phenomenon which is still being studied – has been incorporated into government policy affecting an industry other than energy.

Yesterday's announcement by the Environment Agency coincided with the launch of a report by the International Panel of Climate Change saying that "evidence suggests there is a discernible human influence on climate change."

Although the report was accepted by governments six months ago, that particular phrase has come under recent criticism from the World Energy Council, which represents the energy industries of 100 countries. Sir John Houghton, co-chairman of the working group which produced the report, said he stood by that phrase "four-square".

Mr John Gummer, the environment secretary, will next month present a report on the potential implications of climate change for Britain. A 1991 report said that, by the year 2030, Britain could expect very hot summers to occur more frequently.

A separate IPCC report on the social and economic implications of climate change, launched yesterday, said that the problem warranted taking measures beyond a so-called "no regrets" policy of actions that cost nothing.

Mr Michael Grubb, one of the report's authors, said that UK measures could mean continuing state subsidies for renewable forms of energy.

UK NEWS DIGEST

Labour split on PR reopened

Former Labour ministers Mr Roy Hattersley and Mr Gerald Kaufman yesterday sparked a new battle between old and new Labour by launching a campaign against electoral reform. The launch of the First Past the Post Group, which claims the support of more than 100 Labour MPs, restarted the debate that many hoped had been settled two years ago, when the party agreed a compromise under which it would hold a referendum on the issue after the general election. Mr Hattersley "made no apology" for the political motives behind his opposition to proportional representation. He said: "No one doubts that proportional representation, or any of its variants, would lead to coalition government. Coalition government in this country – no less than in other democracies – would produce the tyranny of small parties." *David Wighton*

Ethnic disadvantage remains

Ethnic minorities in Britain remain at a clear disadvantage when it comes to employment. Nearly a quarter of the 2m men of working age who belong to an ethnic minority were "economically inactive" last year – neither working nor registered as unemployed – compared with 14 per cent of white men, according to statistics from the Labour Force Survey released yesterday by the Office for National Statistics. About 45.1 per cent of ethnic minority women were economically inactive compared with 28 per cent of white women. Unemployment among ethnic minorities fell to 18.7 per cent last year from 21.6 per cent in 1994. Among white workers it was 8.2 per cent last year, down from 9.9 per cent in 1994.

Male unemployment was highest among Bangladeshis, at 38 per cent. About 12 per cent of Indian men were unemployed, 23.3 per cent of Caribbean blacks and 30.8 per cent of African blacks. *Robert Taylor*

Record year expected for visits

The UK tourism industry is heading for a record year after an 8 per cent rise in overseas visitors in the first three months. A total of 4.63m visitors spent £2.11bn ($3.2bn) in the January to March quarter, compared with 4.27m and £2.04bn respectively in the same period last year. The figures mean the number of visitors to the UK for the full year should exceed last year's record 23.6m.

The number of UK residents going abroad rose 11 per cent to 8.09m in the first quarter, and spending climbed 16 per cent to £3.15bn. *Christopher Brown-Humes*

Sony deal extended

Creation Records, one of the UK's most successful independent record labels, has clinched a multi-million dollar deal to extend its joint venture with Sony Music, part of the Japanese group. Under the agreement Sony – which bought 49 per cent of Creation in 1992 – has the right to distribute outside the UK all the records made by Creation's acts. The decision reflects the trend for global music groups to adopt a more flexible approach to their relationship with independent labels.

The £1bn UK music market is heavily consolidated. The "big five" multinationals – Warner of the US, the UK's EMI, PolyGram of the Netherlands, Germany's BMG and Sony – command more than 70 per cent of sales, according to the British Phonographic Industry. Several leading independent labels, including Rough Trade and Factory, have closed. *Alice Rawsthorn*

FTSE-100 firms audit spend

The FTSE-100 companies spent £187.4m ($284.84m) on statutory audit fees according to their latest accounts, 0.5 per cent more than in the previous year, according to a survey by *Accountancy Age*. They spent 9 per cent more, or £175.2m, on add-on services such as tax, corporate finance, management consultancy and IT advice.

Meanwhile a survey of 200 companies by City law firm Manches showed that less than half of businesses thought accountancy firms should be able to limit their liability by incorporation. *Jim Kelly*

Local government probe

The Nolan committee on standards in public life announced yesterday that it would next study local government. It would consider whether existing legislation and codes of conduct were appropriate now that councils provided more services indirectly through contractors. It plans to examine rules on declaration of interest, safeguards in relationships with contractors, movement between the public and private sectors, rules on allowances and the liability of councillors. *Alan Pike*

Money laundering crackdown

The ability of police to react efficiently to information on money laundering in recent months has been helped by "increased resources and better organisation", said Mr Albert Pacey, director general of the National Criminal Intelligence Service. He was delivering the service's annual report, which shows an 8.6 per cent fall in the number of suspect transactions reported to the agency by banks. The report says: "The lower figures for this year are in part due to greater familiarisation by financial reporting officers . . . and the drive towards higher quality reporting." The service has invested in more staff and updated its technology, while developing its links with MI5, the security service. *Jimmy Burns, London*

Nuclear generator faces price threat

By Simon Holberton in London

British Energy, the nuclear power generator, was yesterday dealt a blow by the announcement of a price cut of up to 6 per cent in the Scottish electricity industry and a call for more competition in the supply of power to industrial customers.

The announcements were made by Professor Stephen Littlechild, head of Offer, the UK electricity industry regulator. His statement raised questions in the City of London about the valuation of the soon-to-be-privatised generator. Analysts estimate that British Energy may be worth up to £100m ($152m) less because of the Offer-imposed price cap.

The Department of Trade and Industry said next Monday's prospectus would include a reference to the statement.

British Energy produces half of Scotland's electricity, which Scotland's two vertically integrated power companies, Scottish Power and Hydro-Electric, are required to buy under the terms of an agreement that runs until 2005.

Scottish Power, said it believed it had grounds to re-open the agreement with British Energy. A spokesperson said the price cut which Offer wanted to impose qualified as a "market disturbance" under the terms of its contract.

Within their respective franchise areas, the market for power above consumption of 100kw is open to competition. It is estimated that a 6 per cent price cut would reduce the profits of Scottish Power and Hydro-Electric by up to £10m a year each.

Prof Littlechild said he was concerned that competition in Scotland developed on a "sound basis". He said Offer had received complaints from customers and other suppliers that the Scottish generators where acting in anti-competitive ways. To assess these allegations Prof Littlechild said he would require Scottish Power and Hydro-Electric to produce separate accounts of their activities in the competitive electricity supply market in their own area.

Prof Littlechild said that if the Scottish companies did not voluntarily reduce their prices he would seek public consultation, and ultimately a reference of the whole industry to the Monopolies and Mergers Committee.

Extra-terrestrials limber up for the big match

There is much to play for in the battle to screen the world's major sporting events. By **Raymond Snoddy**

They say that Euro 96 is about football, but it is also about money, sponsorship, and above all, television and viewers. If the England team makes it to the final at Wembley Stadium, UK terrestrial broadcasters the BBC and ITV, which would both show the game simultaneously, would have a total audience of more than 20m, putting the most popular soap opera in the shade.

All ratings history suggests that the audience switches disproportionately to the BBC on the big occasion and that the BBC will score in the ratings. Despite this the ITV companies will have a good game. Not only will commercial TV be broadcasting exclusively what could be England's make-or-break match against Holland, but Euro 96 is likely to add an extra £7m ($10.64m) to ITV revenues in June, boosting the total to £148m for the month, according to CIA Media Network, the independent media-buying group.

There are, of course, other media outlets. America On Line will cover the three-week tournament on the Internet and ClubCall, the premium telephone service group, will supply the official ClubCall line.

But the real question is whether Euro 96 could be one of the last occasions when hundreds of millions of viewers are able to switch on to "free TV" to watch such a sporting event. Many believe the future of TV sport, and TV football in particular, lies with subscription and pay-per-view, orchestrated by international moguls such as Mr Rupert Murdoch, chairman of News Corporation.

It is difficult to exaggerate the power of live exclusive football for satellite TV. The five-year exclusive deal between the English Premier League and British Sky Broadcasting has been the single biggest factor in turning BSkyB into a consortium capitalised at more than £7.5bn.

Even as the Euro 96 players limber up for the opening matches Mr Murdoch, Mr Michael Green, chairman of the UK's Carlton Communications, and Lord Hollick, chief executive of United News and Media, will be playing for the next Premier League contract. With it will almost certainly come the right to show all the league games from the UK's 1997-98 season live on pay-per-view. The sums involved could easily top £750m. Exclusive pay-per-view on digital TV is a trend spreading throughout Europe. Canal Plus, the French subscription TV group, will televise all French first division games on such a basis in the coming season. In Italy, Telepieu, the digital TV company, kicks off the digital football pay-per-view season in September. The Telepieu technology is so sophisticated that a subscriber from Milan can be excluded from watching the home games of AC Milan and will be able only to watch the away games.

However, despite the huge sums of money likely to be generated by the new "electronic turnstyle" which will transform the economics of many sports, all the signs are that the big international tournaments will remain on terrestrial TV for now. Not only do the sports bodies want the largest and most prestigious shop window for their sports, but sponsors want the largest possible audiences.

The evidence is already there. Earlier this year the International Olympic Committee agreed a $1.442bn deal with the European Broadcasting Union for the European rights to the winter and summer Olympics until 2008, ensuring the games will remain on terrestrial TV. A $2bn bid from News Corporation was rejected.

So although fans may have to start paying serious money to watch live league games on TV, the big occasions seem destined to remain where they can command the big audiences.

In the picture: although new media are proliferating, terrestrial TV delivers the biggest audiences Associated Press

BRAZIL and the state of Bahia

Not yet clear of danger

In spite of substantial economic progress, short-term problems keep the success to which the country aspires out of reach, says Angus Foster

Housing apartments in the centre of São Paulo: wealth distribution remains extremely unequal *Tony Morrison*

Children collecting melons for Salvador market: the fall in inflation has improved the diet of the poor *Tony Morrison*

Brazil is lost in a time warp, cut off from its past yet still not within reach of its future.

Even the Brazil of two years ago seems to belong to a different epoch. Inflation was then nearly 40 per cent a month, politics was overshadowed by the mediocrity of former president Itamar Franco and some analysts thought a return to power by the military to be possible.

The success of the "Real" plan, named after a new currency launched in July 1994, has brought inflation to less than 2 per cent a month. The election as president from January 1995 of Fernando Henrique Cardoso, a cautious but talented former sociologist, has introduced a rare stability into politics.

But the Brazil to which leaders such as Mr Cardoso aspire is as elusive as ever. It remains one of the most unequal countries in the world in terms of wealth distribution, with an equally dangerous gap between the rich south and poor north. Its human rights atrocities continue to shock the world, most recently in April when police gunned down at least 19 landless farmers. And the country's politicians, dogged by powerful interest groups, nepotism and corruption, seem increasingly out of kilter with their electors.

Linking Brazil to its ideal future – defined by most as above average growth, a less intrusive government and a more just society – will not be easy. Mr Cardoso, thanks to the power of the presidency, could play a defining role. But in a country as big and complicated as Brazil, the changes needed will never come as quickly as Brazilians and foreigners hope.

Seen from a distance, the situation looks favourable. The economy grew 4.2 per cent last year, and should grow about 3 per cent this year. Since 1990, the economy has been opened to foreign competition and industry has restructured impressively. Foreign direct investment could double this year to R$7bn and Brazil has foreign reserves of more than $50bn, storing up confidence in the overvalued Real.

Pedro Malan, finance minister, has a much more comfortable job than his predecessors. In the period from 1981 to 1992, the so called "lost decade", Brazil had seven years of falling per capita growth. "In the six years from 1993 to 1998 we'll have an average annual rate of growth of 4-5 per cent and inflation will have gone from 4,000 per cent to one digit," he says.

Seen from close up, however, problems in holding the Real plan together begin to emerge. The government's failure to control spending has forced up interest rates to finance its operational deficit, which last year reached 5 per cent of gross domestic product. With annual real interest rates above 20 per cent, investment and growth will be well below potential.

Winston Fritsch, a Rio de Janeiro-based economist, believes the government has time to cut spending and raise domestic savings to aim for 6 per cent annual GDP growth. "You have to raise the growth rates to absorb the unemployment created by liberalising reforms, and to solve Brazil's social problems," he says.

Mr Cardoso's election platform aimed to continue the restructuring of the Brazilian economy, under way since 1990. State-led development has been superseded by a greater reliance on the private sector. Mr Cardoso pledged to shrink the government and channel spending into key areas such as education and health.

Progress has been erratic. He made a good start last year, changing the constitution to open up telecommunications and electricity to private sector competition. But proposals to cut government spending by reforming the social security system and civil service have been emasculated in the lower house of Congress, where party discipline is weak and members of Mr Cardoso's coalition often vote against the government.

Many of the proposals were controversial and involved reducing special privileges of powerful groups such as judges and the police. But the setbacks in the reform process have not only undermined Mr Cardoso's authority, they have also used up valuable time.

Traditionally, Brazilian presidents are strongest at the beginning of their mandates, when their popularity is high. With Mr Cardoso heading towards the half-way point in his four year mandate, some analysts worry that the good part is already over.

His fixation on pushing the reforms through Congress has also focused media attention and public opinion on the capital Brasília and Brazil's corruption and outdated party system.

Concentration on the reforms has also overshadowed changes elsewhere in Brazilian society, which will ultimately be far more important. They include the slow but steady strengthening of local democracy in the rich south, emerging consumer groups and a more investigative media.

Lowered import tariffs and the Mercosur customs union with Argentina, Uruguay and Paraguay, have forced previously myopic businessmen to look overseas and strive for world standards, suggesting recent productivity gains can be extended.

Mr Cardoso may yet reinvigorate his presidency and give new impetus to the reforms. He has recovered in the past, using his charm and capacity to build consensus to hold together a fractious alliance. But if he fails, critics who pointed to his lack of executive experience and readiness to compromise will feel themselves vindicated.

Government members often call for patience, arguing that modernising a country with wide regional differences is difficult. They say there are no short-term threats to the economy and that debunking state-led development will take time. "The government has not lost its impetus, it's just that these reforms are more difficult and they are being discussed in an open democracy," says Marco Maciel, the Brazilian vice-president.

The weakness of this argument is that it tends to assume delays do not entail costs and losers. Yet, without reform, the government's tax revenues will continue to disappear into its bloated payroll costs and generous pensions, rather than into the social projects which it admits are needed. More than 90 per cent of revenues are spent on payroll, interest payments and transfers, leaving just R$550m a month for investment in everything from schools to highways.

The slow pace of change, at both federal and state levels, is therefore partly to blame for Brazil's continuing under-investment in education and illiteracy rates of above 40 per cent in several poorer states.

Quicker progress could have provided more money for the collapsing public health system, and perhaps prevented the tragedy which took place earlier this year when more than 40 people who used an infected dialysis machine died. And better targeted spending could have helped train police forces to cope with the violence of Brazil's big cities, and not to gun down landless farmers.

The April massacre triggered strong reactions from the media and public opinion. Outrage was probably exacerbated by television pictures of the police opening fire. But this may also have reflected popular frustration that having conquered inflation, and created a currency as strong as the US dollar, Brazilians were suddenly reminded of how much remains to be done before the country reaches the future it claims to deserve.

Given Brazil's size, natural resources and the creativity of its people, it could play a leading role in the world economy next century. The progress of the past two years has brought this nearer. But the way through its short-term problems, to tie the present to the future goal, remains elusive.

IN THIS SURVEY

Editorial production: Sarah Murray

Cleaner ways with magnets

The ability of micro-organisms to devour toxic chemicals is often used to clean up polluted sites. In a variation on this theme, scientists have found a way to use the magnetic properties of some bacteria to remove toxic metals from contaminated water.

These magnetic bacteria could find a role in clearing out the canals of Venice. Over the years, these have silted up so much that it is sometimes impossible for emergency vehicles to gain access at low tide.

The canal system is polluted with toxic heavy metals from the industrial complexes around the Bay of Venice. That presents difficulties in dealing with the sediments removed after dredging the canals.

A team of scientists from Italy, the UK and Ukraine believe that magnetic bugs could provide the answer. The bacteria would attract the heavy metals in the sediments; the metals and bugs could then be separated from the rest of the sludge by using a magnetic system.

The technology was developed at Southampton University by Jim Watson and his colleagues when they investigated the properties of certain bacteria that occur naturally in sewage, deoxygenated water and sediments. It is being commercialised by Biopraxis, a start-up company in which the university has a 25 per cent stake.

The team found that, when mixed with certain metals and nutrients, the bacteria were able to absorb a large amount of certain metals. They subsequently discovered that the micro-organisms produced an iron sulphide coating that attracts and holds certain metals.

The project, which is seeking funding from the EU's Copernicus project, is linked to another project concerned with the clean-up of sites contaminated with radioactive metals in Ukraine. According to Watson, the technique is inexpensive and can cope with very low concentrations of metals, making it suitable for cleaning up radioactive waste.

Vanessa Houlder

Smart jets that can warn of defects and repair themselves are now a possibility, says Cliff Friend

The feeling aircraft

Early in the next century, those nattily-dressed flight attendants on the world's commercial airlines could find themselves overshadowed by the "smartness" of their own aircraft.

A global race is on to develop the world's first aircraft constructed from structures that will monitor their own health during flight, and warn of any cracks or defects as they occur. Aircraft with feelings, one might say.

These self-sensing structures will replace some traditional ground-based inspection, creating a sea change in the way the health of aircraft is checked, improving safety and reducing maintenance costs.

Aircraft are subjected to continuous inspection throughout their life in a battle to detect signs of corrosion or microscopic cracks caused by metal fatigue, which, if allowed to go unnoticed, would impair their safety.

The importance of this regular inspection is illustrated by the few occasions when things do go wrong, such as the case of an Aloha Airlines Boeing 737 flying between the Hawaiian Islands in 1988.

In spite of continuous health checks, shortly after takeoff, and at a height of 20,000ft, a 6m section of the aircraft's fuselage broke away, instantly sucking a flight attendant to her death and leaving 61 of the 95 passengers injured, three critically.

The cause of the accident was microscopic cracking of the fuselage which had grown imperceptibly over many years of service and which finally spread as the aircraft climbed to its cruising height.

Monitoring the health of aircraft is a laborious process. Ground staff check an aircraft every time it lands: at regular service intervals aircraft are stripped of their internal fixtures and subjected to detailed inspection, including the use of ultrasound.

The commercial overheads of such a regime are enormous. British Airways alone employs more than 1,000 staff to inspect and service its 60 Boeing 747s, and the world's airlines spend an estimated $30bn (£20bn) annually on the costs of repairs, overhauls and spares.

These health checks also reduce the revenue-earning capacity of airlines because they remove aircraft from service for periods ranging from days to weeks.

Health monitoring must remain central to airline safety, but, as Barry Booth, chief of development engineering at British Airways says: "Airlines welcome any new technology which will improve on their existing practice."

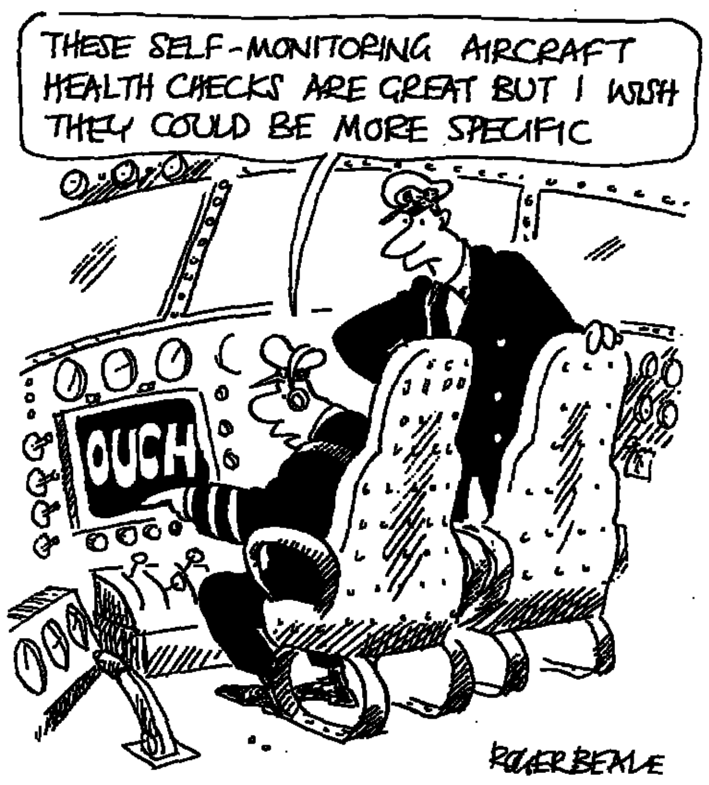
Such a technology is now possible. To create a "smart" structure, an aircraft must be covered in a network of sensors, rather like the human nervous system but made of optical fibres, similar to those used to carry telephone calls.

When a portion of optical fibre is stretched or compressed, the frequency range of the light carried within it changes. Processing these changes by computer allows engineers to detect stress and strain at thousands of separate points along such a fibre.

When bonded to a conventional aluminium aircraft, or woven into the carbon-fibre reinforced plastics (CFRP) now entering service in the latest generation of passenger aircraft, networks of these "optical nerves" will monitor any damage that develops through impact, corrosion or fatigue.

Demonstrations of this technology already exist. Ray Measures, an aerospace engineer at the Institute of Aerospace Studies in Toronto, has built an experimental section of "sensual" wing for the De Havilland of Canada Dash turboprop aircraft, which is in service with commuter airlines worldwide.

The wing's leading edge is a particularly difficult region to inspect conventionally and so Measures has incorporated "optical nerves" to inspect it. The wing has not yet flown, but ground tests have shown it can detect the damage which results from impact with foreign bodies such as runway debris and birds.



Worldwide, many other aerospace companies are developing similar demonstrators, including British Aerospace which is working on a sensual fuselage based on similar fibre-optic technology.

However, sensuality is only the beginning of "smart" aircraft. Work is already under way to create aircraft that not only sense damage but also make themselves healthy again.

Cranfield University is working on "composite structures" that can "limp home". These contain muscle-like metal wires that can adapt their shape in response to control signals and be activated at the first sign of damage. These force shut any cracks, minimising the further accumulation of damage and allowing a damaged aircraft to fly safely to its nearest airfield for an emergency landing.

Self-repairing structures are also becoming feasible.

For example, Carolyn Dry at the University of Illinois is developing composite materials containing hollow fibres that can release adhesive into a damaged region of structure. These will allow localised self-repair, as well as the possibility of repair systems that can be replenished at regular intervals or improved during the life of an aircraft.

When "smart" aircraft will appear is a difficult question to answer. Realistically "sensual" structures will be available in the form of advanced demonstrators over the next decade, but self-repairing structures are likely to be earth-bound for many years to come.

However, there is no doubt that "smart" structures will, over the next 20 years, create a revolution in the way aircraft are inspected and serviced, reducing the likelihood of incidents such as that experienced by Aloha Airlines.

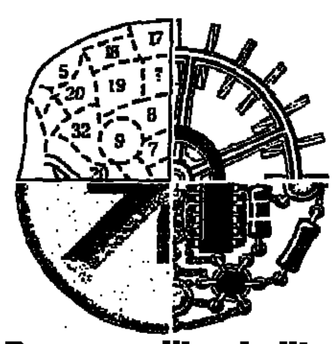
They will also offer improved revenue-earning ability by allowing an airline's aircraft to fly safely for more hours before costly (in commercial terms) human intervention, and offer reduced overheads associated with inspection and maintenance.

Airlines are already responding positively to this technology. For example, British Airways' engineering division, one of the industry's leading maintenance and overhaul businesses, is assessing the potential of "smart" aircraft structures.

It is, therefore, likely that smart aircraft will soon be in the world's airline fleet once they are proven to offer improved safety and cost benefits and cleared by airworthiness authorities.

Cliff Friend is head of Cranfield University's smart materials group.

Worth Watching · Vanessa Houlder



Porous ceiling built for sports centre

Work has begun on a sports centre in Callander in Scotland with a "porous" ceiling designed to cut down energy consumption and improve air conditions within the building.

The building's loft will be insulated using materials that allow air, moisture and vapour-linked pollution to filter through them.

A fan will draw a slow-moving stream of air into the building through a flue in the roof. As the air moves through the insulating material, it will be heated up. The downwards flow of air should also cut down the energy wastage usually caused by hot air rising to the top of the building.

The insulating materials will be able to absorb and emit water in a way that stabilises the building's humidity. This is expected to cut down problems with mould, bacteria and viruses.

Gaia, the architects, says "dynamic insulation" systems, pioneered in Scandinavia and continental Europe, have cut running costs by up to 30 per cent.

Gaia: UK, (0)131 558 1432; fax (0)131 558 1432.

Switch from cobalt for batteries

Rechargeable lithium batteries can store more than twice as much energy for their weight as other rechargeable batteries. But their use has been limited by the high cost and the toxicity of the cobalt component used in the electrode.

Chemists at the University of St Andrews in Scotland have experimented with an electrode material that replaces cobalt with manganese – which is far less toxic and 100 times cheaper than cobalt. According to a report in today's Nature, its charge capacity and stability compares well with other compounds used for lithium battery electrodes.

University of St Andrews: UK, tel (0)1334 463325; fax (0)1334 463808.

Automatic search through a database

Tracking down relevant articles on an electronic database can be time-consuming. The answer, according to a US electronic business information service, is to offer readers summaries of articles that are automatically generated using statistical techniques.

IntelLX says its summaries – which consist of a few of the most relevant sentences directly from the full text of the article – can cut down the information overload facing managers.

This kind of text-summarising program is an example of "natural-language processing", in which computers deal with information expressed in a human language. It uses statistical tools to sift the text to find phrases that occur most frequently. By assuming this is a measure of relevance, the sentences can be ranked in order of importance. IntelLX, part of DataTimes Corporation, used software developed by Claritech Corporation based in Pittsburgh.

IntelLX: US, tel 703 5247400; fax 703 5247401.

Plastics sorted with air and water

Daimler-Benz has found a way of recycling plastics from disused components and production waste, that dispenses with the need to sort types of plastics by hand. The equipment consists of a glass column filled with several hundred litres of water and air bubbles.

The technique relies on the different responses of different types of plastic granules when put in water. Plastics that are difficult to wet are more likely to attract air bubbles and float. Conversely, the plastics that are easy to wet, or hydrophilic, stick to the bottom of the column.

Tannic acid can be used to separate plastics that cannot otherwise be distinguished using this technique. The acid combines with certain plastics in a way that makes them hydrophilic and allows them to be separated from the mixture.

Daimler-Benz: Germany, tel 71117 93039; fax 71117 94965.

■ **The Brazil cost:** by Stephanie Flanders

Taking a toll on business

The pressure to reduce the high cost of operating in the country is mounting

Ask a Brazilian businessmen why he has trouble competing in world markets and it is a fair bet that he will start talking about the "Brazil cost", or "a custa Brasil".

Everybody has their own list of factors that make Brazil a costly place to do business; but high interest rates, poor infrastructure, and the tax and social security system would top most of them.

As ministers are the first to admit, opening up the economy and curbing inflation has not lessened any of these problems. Indeed, in the case of interest rates, the constraints of the Real plan have made it considerably worse.

Roberto Jeha, the chairman of a São Paulo paper and packaging company claims it is now all but impossible for the average Brazilian company to borrow for investment. Interest rates are a good deal lower than they were a year ago, but commercial loans still cost upwards of 5 per cent per month.

Mr Jeha believes that the duration of loans is an even larger block on investment. Domestic bank loans rarely extend much beyond 3-6 months, and only the biggest Brazilian companies can raise longer-term funds on international markets.

After two years of falling inflation, banks are at last beginning to offer more 12 to 18-month loans. But Paulo Ferraz, chairman of Bozano Simonsen, a leading domestic investment bank, says that a shortage of truly long-term finance will be a reminder of Brazil's past for some time.

"You are not going to get banks lending money for 15 years until the bank's investors are willing to entrust their cash for the same length of time," he says.

"In a country with a history like Brazil's, people might have to see 15 years of price stability before they are willing to take that chance".

Poor infrastructure is hardly a uniquely Brazilian problem. But it takes a particular toll on business costs in a country of its size.

Any businessman can cite examples of producers in the interior whose costs are a fraction of the international average before they leave the factory, but well above it by the time goods have negotiated their way to port. In the congested city of São Paulo, residents joke that they spend half of the work day waiting in traffic – the other half waiting on the line.

With every layer of government strapped for cash, the government is pinning its hopes on the private sector to put this part of the Brazil cost right. So far the government's drive to open up public infrastructure concessions to private bidders has met with mixed enthusiam at the state level. But the sheer weight of demand in cities such as São Paulo and Rio is forcing the pace of reform.

The hope is that other states will be forced to follow their example, for fear of losing out in inter-state competition to attract private jobs and investment. But it could be many years before most companies feel the effects.

By common agreement, the problem with the tax and social security system is less the size of the revenues collected than the structure. Taxes are skewed heavily towards employment and production, and are often models of poor design. For example, there are 21 different social security contributions, many of which "cascade" down the production chain since they are based on turnover.

Opposition in Congress has put paid to the government's hopes of comprehensive social security and tax reforms this year.

But reformers are hoping to eliminate some of the system's worst excesses through piecemeal legislation.

Here, as elsewhere, the "custa Brasil" is on the way down, though a good deal more slowly than ministers and employers would like.

■ **Politics:** by Angus Foster

An increasingly tangled web

The president has had to muster his strength to keep the government's coalition together

Politics in Brazil is so complicated that a word had to be invented for it. "Fisiologismo" was dreamt up to describe the bargaining between different interest groups needed to oil the wheels of Congress. With so many regional and party interests, the bargaining often takes on absurd proportions.

Thus, in order to salvage his troubled social security reforms on course, President Fernando Henrique Cardoso has so far had to promise to refinance part of São Paulo's debts, water down proposals to call in overdue farm loans and speed up government handouts to the poor north-east.

It is a system that is far from ideal, and its emergence is blamed on Brazil's still young democracy and a distorting election system for the lower house of Congress. "We need reform of the electoral and party systems to guarantee governability," says Marco Maciel, the vice-president.

Mr Cardoso hoped when he took office to pass political reforms which would address some of the problems. But the ideas are controversial and have hardly been discussed, suggesting Brazil will be burdened with its political process for some years yet.

The chief problem is in the lower house where each state is a single constituency and deputies need only a few thousand votes to be elected, especially in the poor north.

Deputies tend to represent narrow, regional interests and often show little concern for important issues affecting the whole of the Brazilian federation.

Compounding the problem is the fact that the 17 political parties in Congress are weak and usually based around powerful individuals rather than ideology. The Democratic Movement party (PMDB), the largest in Mr Cardoso's coalition alliance, is split into four wings divided along regional and personal lines. Some wings regularly vote against the government when they feel their interests are threatened.

Sitting at the centre of this tangled web is Mr Cardoso. He has needed to muster all his charm and political nous to keep the government's coalition together, since it stretches from his own Social Democracy party (PSDB) to the right wing Liberal Front (PFL).

The coalition, in theory, has nearly 350 of the 513 seats in the lower house, easily enough to secure the 308 votes needed to pass constitutional amendments.

At the time of voting, however, party loyalty has often counted for little. By the time it was first approved, the social security reform had been subject to so many compromises that some ministers admitted it was only a stop gap measure which would need to be addressed again in a few years.

The coalition's ideological diversity is another debilitating factor. In a recent vote over cellular telephones, the main argument was between coalition allies in the PSDB and PFL, some of which nearly came to blows. Meanwhile, Mr Cardoso's hopes of accelerating land reform are opposed by the – largely landowning – leaders of the PFL.

"The president is a shrewd politician, but the type of alliances he made will prevent him making things work," says Luiz Pedone, a political scientist in Brasília.

As if all this was not complex enough, the issue of re-election will soon make things even more complicated. According to the constitution, holders of executive office such as the president, state governors and mayors, cannot run for re-election after their four-year terms. Mr Cardoso is almost certain to try and amend the constitution, to allow re-election, once October's municipal elections are over.

He is likely to be supported by incumbent governors, who would also benefit from the change, but opposed by the many potential alternative candidates for president in the 1998 elections.

Some of the leading candidates for the post, such as president of the senate José Sarney, may be tempted to put their own interests above those of the government, weakening Mr Cardoso's position in Congress.

According to many analysts, Congress rarely votes against the public will and re-election will depend on Mr Cardoso's popularity. "If the people don't want re-election, Congress won't vote it," says Mr Antônio Carlos Magalhães, one of the country's most powerful senators.

According to Mr Magalhães, the crucial factors will be the inflation rate and cost of living at the end of this year, when re-election will start to be discussed in Congress.

President Fernando Henrique Cardoso

The price Mr Cardoso will have to pay for re-election, persuading enough interest groups to support him, is not yet clear.

Recent opinion polls suggesting his popularity is falling – probably because of concern about rising unemployment – and media criticism of the government's social policies, will certainly raise the stakes when the bargaining, and the "fisiologismo" gets under way.

■ **Capital markets:** by Jonathan Wheatley

Premier role still elusive

More reforms are needed if São Paulo is to become the region's leading financial centre

That Brazil's financial markets managed to function at all during decades of boom, bust and runaway inflation demonstrates their resilience and sophistication.

However, the prospect of sustained economic stability means capital markets, particularly stock markets, have some catching up to do. The São Paulo Stock Exchange (Bovespa), although Latin America's busiest, is far from fulfilling its main function as a source of investment capital.

Daily trading on the Bovespa, at about R$250m, is half the level it was at the start of the decade, when the government of the former president, Fernando Collor, began dismantling trade barriers and launched capital markets on a wave of optimism. Despite the successes of the incumbent president, Fernando Henrique Cardoso, investors have since got used to the idea that rebuilding an economy the size of Brazil's takes time.

Low volume on the Bovespa, which claims 90 per cent of Brazilian trading, inevitably leads to low liquidity, exacerbated by concentration in a handful of shares. The market is developing reforms designed to spread liquidity to second- and third-tier stocks.

To attract new custom, the Bovespa recently introduced stock lending, and plans to launch Brazilian Depository Receipts. The idea may sound far-fetched, but the exchange says three foreign companies are already interested.

Volume growth, however, will only come with structural economic reform. Taxation, public administration and pensions must all be overhauled before the government can reduce interest rates to international levels and allow companies to invest in production.

Few investors doubt that the government is on the right track. The US asset management company, Capital Group, which has $1bn in third party funds invested in Brazil, demonstrated its faith recently by forming a joint venture with local bank BBA Creditanstalt.

Although many investors have been disappointed by the pace of reform, advances have been made. The government's privatisation programme was boosted last month by the sale of a controlling stake in Light, a Rio de Janeiro electricity company, for R$2.2bn. Reforms of Brazil's pensions system have been diluted and delayed by congress, but the changes will still help financial markets. "The reform isn't ideal, but even so it will lead to a big increase in savings," says Alberto Alves Sobrinho of Fair Corretora, a São Paulo brokerage. "Some of that will make its way into stocks."

There is little prospect of new stock issues, however, while many companies are trading at below book value and while family owners remain unwilling to relinquish control, there is little chance of new stock issues. Nor is the fact that many Brazilian companies prefer to use fixed-income instruments to raise capital encouraging.

Domestic interest rates are still extremely high by global standards, so much Brazilian debt is placed overseas in Eurobonds and other commercial papers. Public and private issues rose from $5.96bn in 1994 to $9.65bn last year and spreads have fallen as confidence in the economy has grown.

Brazilian interest rates have also attracted short-term investment from overseas. Despite the arbitrage opportunities for investors elsewhere in Latin America, however, most of this capital has come from outside the region.

"Investors in other Latin American countries know their own markets well but are less able to gauge risk in Brazil," says Marcio Ferrazoli, a fixed-income trader at Bank of Boston's São Paulo subsidiary.

If lasting stability is achieved, Brazil will become less of a mystery and regional integration should increase. But the idea of São Paulo becoming the financial capital of Latin America, is, says Mr Ferrazoli, "still on paper".

■ **Privatisation:** by Stephanie Flanders

Mature but slow-moving

While the valuable public service and utility sectors are now part of the process, progress remains sluggish

Ministers like to say that the six-year old Brazilian privatisation programme has reached "a new stage of maturity" under the government of President Fernando Henrique Cardoso.

The good news, for foreign investors, is that it is finally beginning to touch the hugely valuable public service and utility sectors that were the highlight of sell-off programmes elsewhere in Latin America. The bad news is that this more "mature" process is still painfully slow.

Last month's purchase of a controlling stake in Light, the Rio de Janeiro power company by a consortium including Electricité de France (EDF) is a case in point. The auction, the first to involve significant foreign participation, raised \$2.23bn, making it Brazil's largest privatisation to date. But it was also one of the most delayed, with Light having been first proposed for privatisation in 1992.

The sale of the Rio distributor should help pave the way for the gradual privatisation of the vast Brazilian power generation network, which produces as much energy as the rest of Latin America combined. Like the long-awaited sale of mining giant Companhia Vale do Rio Doce, expected early next year, it will help President Cardoso deflect claims that privatisation has slowed considerably since he took office.

Between the beginning of 1995 and the Light auction, the Cardoso administration raised a total of \$1.1bn, placing 11 companies either partly or wholly into private hands. This compares with 33 privatisation offers – with combined proceeds of \$8.6bn – during the previous four years of the programme.

Finance minister Pedro Malan insists that the government is "100 per cent committed" to rolling back these frontiers of the state – if only because it cannot afford not to. Like most economists, he believes handing over large chunks of the economy to the private sector is the only way to upgrade the economy's infrastructure and raise its productive capacity, given the enfeebled state of public finances.

Yet Mr Malan and other privatisation enthusiasts are also pragmatic about how long it will take the government to translate this theory into practice. The flagship Light privatisation, for example, was rescheduled more times than anyone cares to remember.

Critics see the delays in these and other key privatisations as a sign of waning government enthusiasm. But many of those familiar with the administrative and political niceties involved in putting a company on the market doubt that things could move much faster.

Carlos Langoni, a professor at the Getulio Vargas Foundation in Rio, says the current energy and utility privatisations could not move faster because they raise regulatory and competition policy issues not evident in the early stages of the programme.

Defenders of the government's record also point to important developments at state and local level which many foreign investors – focused on the "headline", federal privatisation programme – tend to overlook.

A severe shortage of public funds is prompting several states and local municipalities to make use of a 1995 law permitting them to grant private concessions for public service projects. Rio de Janeiro has been a pioneer in this, putting many of its roads and bridges up for private contract in the year since the law was passed.

The states of Rio de Janeiro and São Paulo have also had to take the initiative in pushing ahead with power privatisation, despite the uncertainties about how the new firms will be regulated at the federal level.

The São Paulo government has spent the past year preparing to unbundle the state's highly integrated electricity companies into stand-alone generation, transmission and distribution companies. Given the necessary approval from the state assembly (expected in the next few months), the state energy secretary, David Zylbersztajn, aims to formalise this restructuring in time to start selling off individual companies in early 1997.

Mr Zylbersztajn accepts that it would be preferable to have the new federal regulations agreed before privatising parts of the São Paulo network. But he is confident that foreign investors will be prepared to bear some regulatory uncertainty in return for gaining access to such an enormous market. Eletropaulo, the main distributor for the city of São Paulo, supplies three times more electricity than Light and accounts for 22 per cent of Brazil's electricity consumption.

A consortium of Chilean electricity companies decided at the last minute not to participate in last month's auction of Light, partly on the grounds of excessive regulatory risk. But most analysts are more sanguine. "Yes there's risk," says one, "but if you don't want risk, you don't want Brazil."

■ **The private sector:** by Jonathan Wheatley

Restructuring proves a painful process

A new market for consumer goods is emerging but many industries find it hard to cope with more competition

Brazil's private sector will remember the 1990s as a time of strenuous and often painful readjustment. Falling inflation and the move from a protected, state-led economy to one characterised by open markets and competition have allowed some industries to flourish. For others, the changes have led to cutbacks and closures.

"We are seeing a transformation of Brazilian society," says Luiz Fernando Furlan, a director of the São Paulo state industry federation, Fiesp. "New consumers are coming to the market for the first time, but there is also a lot of suffering."

Industries that have fared better are those catering to the mass market. For years before the economic reform plan of July 1994, high inflation had been stealing purchasing power from the pockets of ordinary Brazilians. When inflation fell, spending on all kinds of "popular" goods took off.

One example is the beer industry, where consumption rose by two-fifths between 1993 and 1995. Another is chewing gum: in dollar terms, sales rose by 72 per cent last year.

Bigger ticket goods have also benefited. Many Brazilians who for years dreamed of owning a washing machine can now afford one. In February, sales of Brazilian-made white goods were more than 140 per cent higher than in January 1994. Sales of audio-visual goods had more than tripled.

These industries, though, have natural advantages. In a vast country where transport is often precarious, mass-market goods can only succeed if they have national distribution. It is difficult for new entrants to compete – hence the associations formed last year by Anhauser-Busch and Miller Brewing with, respectively, Antarctica and Brahma, Brazil's two biggest brewers.

Household electrical goods cater to years of unsatisfied demand as do so-called "popular" cars, no-frills models which take 60 per cent of a market that has doubled in size in the past five years.

Other industries were less prepared to withstand the flood of imports caused by falling trade barriers and rising consumption. Among the hardest hit are two traditional stalwarts of Brazil's economy, footwear and textiles.

For manufacturers in these sectors, the removal of trade barriers has been doubly cruel. For more than two decades, government policy was to protect domestic industry with tariffs that made imports extremely expensive. With little competition, manufacturers were under no pressure to invest in modern machinery. But even those who wanted to were deterred by import duties that put foreign-made capital goods beyond their reach.

Ill-prepared to face foreign imports, many businesses have failed. Brazil's textiles industry consisted of 830 manufacturers in 1994. Since then a quarter of them have closed with the loss of more than 15,000 jobs. The government responded by raising tariffs again and, last month, by putting tough quotas on cheap imports from Asia. Manufacturers say the measures do not go far enough.

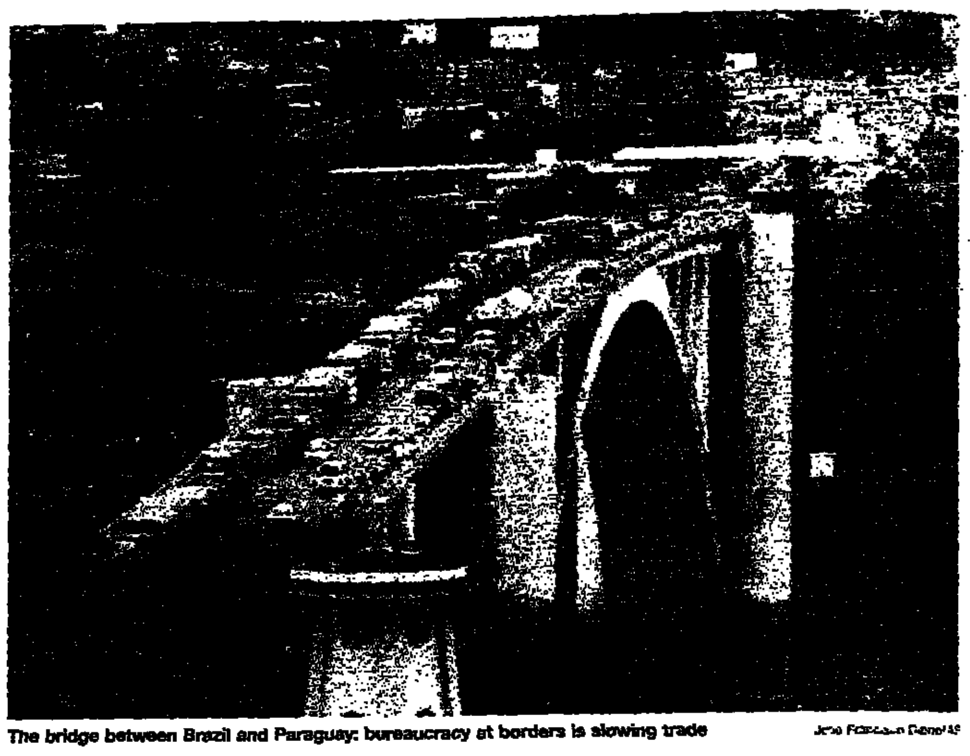
Some companies have invested, but their ability to do so is restricted by the cost of domestic credit, which the government has kept high as part of its anti-inflationary strategy.

As a result, most investment in manufacturing is by Brazilian companies with sufficient standing to raise capital on international markets and by multinational companies. The central bank says foreign direct investment in Brazil will double this year to R\$7bn.

The lion's share will go to the auto industry. The four multinationals long established in Brazil – Volkswagen, Fiat, General Motors and Ford – are investing in new production lines while a string of European and Asian manufacturers have announced or are preparing to announce investments.

They are attracted by the potential of Brazil's expanding market and by the Mercosur customs union formed by Brazil, Argentina, Paraguay and Uruguay. The agreement has boosted regional trade and allowed many companies to treat the four countries as a single market.

Auto manufacturers have been able to integrate operations in Mercosur, concentrating production of individual models in Brazil or Argentina for export to the rest of the union. Other companies have followed similar strategies: food processor Sadia recently transferred operational control of its Argentine division to its headquarters in São Paulo. Nevertheless, persistent bureaucracy at national borders means it will be some years before Mercosur operates as a genuine single market.



The bridge between Brazil and Paraguay: bureaucracy at borders is slowing trade

CASE STUDY Automotive components

Facing the end of the road

While auto makers prepare for expansion, their suppliers face drastic restructuring. More than 1,000 components manufacturers operate in Brazil. Analysts expect that number to fall to about 200 in the next few years.

Some reduction will come from mergers and acquisitions but many small manufacturers face extinction. Of the businesses that survive, only a handful will be leading companies and they will be operating on a reduced scale. David Wheeler, an analyst at brokerage Bear Stearns in São Paulo, says many components makers will see sales down by between 30 and 50 per cent this year.

"The industry is going through its second big change this decade," he says.

The first phase was one of expansion in line with the growth in auto production. The components industry association, Sindipeças, says sales last year were worth \$16.5m, up from \$12.2m in 1990.

But two factors are forcing manufacturers to cut back. One is falling sales of agricultural equipment resulting from a credit crisis among farmers. A longer-term change is the trend in the world auto industry towards standardisation and global sourcing.

Combined with falling trade barriers and an industry agreement within the Mercosur customs union, this means manufacturers will rely more on overseas suppliers and on big local companies operating in partnership with multinational groups.

With production set to rise from 1.6m vehicles last year to 2m by the end of the decade, the outlook is not all bleak. But the industry can already produce 2.5m vehicles annually. As the average age of vehicles drops the market for replacement parts will shrink and longer warranties will demand longer-lasting parts. Big Brazilian manufacturers such as Iochpe-Maxion, Cofap, Metal Leve and Marcopolo will probably survive in the tougher climate. But for many, Brazil's increasing involvement in the global economy will mean the end of the road.

Jonathan Wheatley

■ **The regions:** by Leslie Crawford

The great gulf widens further

Development policies have failed to tackle the growing gap between the poor north-east and the rich south

"There is a Berlin Wall dividing the north-east from the rest of Brazil," Cicero Lucena, minister for regional policies in Brasilia, recently told the weekly magazine Veja.

His job is to tear this wall down. But to do so, Mr Lucena must first address the question of why 35 years of federal development policies have failed to level the inequalities which divide the poor north-east from the rich south of Brazil.

Virtually every socio-economic indicator in Brazil points to a widening gulf between the two regions, as the north-east is left further and further behind in the development race.

In a 1993 study the average head of household in the north-east region earned half the wage of his peers in the south, died some 10 years younger and was twice as likely to be illiterate.

Less than half the population in the north-east had access to potable water, compared to 74 per cent in the south. Almost one-third of the population in the north-east earned less than the minimum wage of \$112 a month, against 18 per cent in the rest of Brazil. The north-east, home to 30 per cent of Brazil's population, produced only 15 per cent of the country's economic output.

Even in death the regions were worlds apart: while preventable infectious diseases remained the main killers in the north-east, southern Brazilians were more likely to die from first world ills such as cancer or heart failure.

Brazil has a specific federal development agency for the north-east, which has invested R\$5.6bn in the region since its creation in 1959, according to Mr Lucena's calculations. Over the years, however, the agency, called Sudene, earned a reputation for corruption, then inefficiency, and finally irrelevance.

"The whole rational for having agencies like Sudene needs to be rethought," says Rodolpho Tourinho, finance secretary for the state of Bahia.

"Tax holidays and other fiscal incentives are no longer enough to attract investments to the north-east. We need new policies to foster development."

Past governments offered generous incentives in order to persuade companies to move to the north-east. In the 1970s, the decade of Brazil's "economic miracle", the state also played a leading role in the industrialisation of less-developed regions, building, for example, Brazil's biggest petrochemical complex outside Salvador, in Bahia.

Federal government deficits in the 1990s make it less likely that the state will continue acting as a catalyst for the development of the north-east. In any case, past policies have been discredited for concentrating wealth in the hands of a few industrialists and commercial farmers.

Critics say the old model of development encouraged the wrong kind of industry to locate in the north-east: petrochemicals, aluminium, paper and pulp plants and metal refineries are all capital intensive. They could not solve the region's employment problem, or raise living standards of rural and urban poor.

Even when federal government projects are designed to integrate subsistence farmers into the formal economy, the effort often stumbles upon the lack of formal education in rural communities.

Irrigation projects along the River São Francisco have transformed pockets of the north-east's arid interior into thriving centres of agricultural production.

But those responsible for the transformation are, in the main, commercial farmers from the southern part of Brazil.

Local farmers, with little experience in marketing produce or negotiating bank finance, have been less successful with their irrigated plots.

Continued on page 5

FINANCIAL TIMES
COMPANIES & MARKETS
Thursday June 6 1996

IN BRIEF

Rhône-Poulenc set for US disposals

Rhône-Poulenc, the French chemicals company, is set to announce the sale of US drugs businesses worth more than FFr1bn ($196m), as part of a FFr10bn programme of disposals. Page 17

Fanjul to quit as Repsol chief
Mr Oscar Fanjul is due to resign as chief executive of Repsol tomorrow, after the Spanish energy company holds its annual meeting, to be replaced by Mr Alfonso Cortina, chairman of Portland Valderribas, the cement company. Page 16

Iri in the black but warns on debt
Iri, the Italian state holding company, reported its first profit at group level since 1990 thanks to continuing disposals which raised about L1,400bn ($906m). But it again warned that if it failed to sell its stake in Stet, the telecoms holding company, this year, it would miss European Commission targets on debt reduction. Page 16

TDK sells US chip unit for $575m
Texas Instruments of the US, one of the world's leading semiconductor makers, has acquired Silicon Systems (SSi), the US semiconductor arm of Japan's TDK, for $575m. Page 19

Racal to reorganise data products side
A 21 per cent rise in annual profits at Racal Electronics was marred by the announcement that the UK data communications, telecoms and electronics group is to restructure its data products business at a cost of £20m ($30.4m). Page 21

India expects tea prices to stay firm
India, the world's largest producer of tea, expects prices of the commodity to remain firm this year, in spite of record production. Page 22

Companies in this issue

Market Statistics

Chief price changes yesterday

FRANKFURT (DM)				Ecco	1373	+	53
Rises				Worms	275.8	+	8.9
Bas. Berlin	337	+	8	Falls			
Henkel	658.8	+	20.5	[illegible]	586	-	12
SAP	224.8	+	8.4	[illegible]	787	-	11
Wella	895	+	45	Legrand	813	-	12
Falls				**TOKYO (Yen)**			
DLW	130	-	7	Rises			
Gerresheimer	314	-	4	Daishowa Paper	929	+	63
NEW YORK ($)				Nippon Soda	619	+	35
Rises				Orient Corp	706	+	22
Cadence Design	40¾	+	2⅜	[illegible]	567	+	14
Norrell	44⅛	+	2⅜	Falls			
Sun Intl	54	+	2⅜	[illegible]	641	-	17
Weyerhsr	43	+	4⅛	[illegible]	865	-	48
Falls				**HONG KONG (HK$)**			
[illegible]	30⅛	-	2⅛	Rises			
Zing	33	-	2	JCG Hldgs	6.60	+	0.30
LONDON (Pence)				Lung Kee	2.225	+	0.285
Rises				Falls			
Bluebird Toys	275	+	27	[illegible]	3.80	-	0.25
[illegible]	295	+	30	[illegible]	2.525	-	0.225
[illegible]	312	+	15½	Grand Orient	2.125	-	0.25
Falls				[illegible]	3.25	-	0.15
BBA	295½	-	21½	**BANGKOK (Baht)**			
Eurotunnel	106½	-	10	Rises			
Frost Grp	160	-	9	[illegible]	400.00	+	194.00
TORONTO (C$)				[illegible]	30.25	+	2.75
Rises				[illegible]	13.00	+	6.30
Gt Eco Logic	12.50	+	1.00	Falls			
Multi-Corp	10.60	+	0.90	Sub Sri Thai	45.00	-	5.00
Tee-Comm El	14.40	+	1.15	Thai Fish	48.50	-	5.00
Falls				Us Bank of Bkk	39.50	-	10.50
Alpine Resources	19.75	-	1.95				
Intl Curator	13.95	-	1.25				
Sth West Gold	23.50	-	2.25				
PARIS (FFr)							
Rises							
BIC	640	+	45				

New York & Toronto prices at 12.30

Saab to manufacture three models

By Hugh Carnegy in Stockholm

Saab Automobile, the struggling Swedish carmaker managed and half-owned by General Motors, is to produce three models for the first time and revamp its US sales operation along the lines of GM's innovative Saturn subsidiary.

Saab, co-owned by GM and Investor, the main Wallenberg empire holding company, said it would launch a luxury car in the first half of 1997 to add to its 900 and 9000 models as part of its drive to increase annual output from just under 100,000 units last year to 150,000 by 2000. Previously, the new car was billed as a replacement for the 9000.

The company also announced the appointment of Mr Joel Manby, a senior executive at Saturn Corporation, as head of its operations in the US, Saab's biggest single market. Saturn has achieved fast sales growth and *high customer loyalty since it* was launched by GM in the mid-1980s.

Mr Keith Butler-Wheelhouse, Saab chief executive, said Saab intended to restructure its 300-strong chain of dealerships in the US to broaden their geographical coverage and model their organisation on Saturn distribution, sales and servicing techniques. The target was to raise annual sales in the US from 25,000 to 40,000 by the end of the decade.

Saab is battling for survival after running up net losses of almost SKr9bn ($1.3bn) since GM bought 50 per cent of the company *in 1989. It returned small* profits in 1994 and 1995, but slid to a SKr333m loss in the first quarter of this year when sales in the US fell 21 per cent. GM and Investor are negotiating a further refinancing package for Saab, in addition to the SKr6bn in capital they have jointly invested to date.

Mr Butler-Wheelhouse said in an interview the new car would be added to the Saab range above the present top-of-the-line 9000. "The 9000 has continued to sell strongly and we will carry on producing it for at least another five years," he said.

The new model will be built on a new front-wheel drive chassis, sourced from GM but adapted by Saab. It will include an estate car version to be launched in 1998, the first Saab estate since the 1960s.

In the US, Mr Butler-Wheelhouse said Saab wanted to take advantage of Saturn's training and support systems to sharpen its sales effort. He said co-operation could develop in all "behind the scenes" functions and he held out the possibility that some Saturn dealers could also become Saab dealers.

● Volvo, the Swedish car and truckmaker, *signalled yesterday* it intended eventually to start car production in the US with a model built specially for the US market. It declined to give any timetable.

Saab approaches crossroads, Page 16

Swissair and BAA lift bids for Allders

By Christopher Brown-Humes in London

Swissair yesterday appeared to *be heading for victory in its bid* battle with UK airports operator BAA for the duty-free operations of Allders, the UK retail group, after a hectic day featuring higher offers from both companies.

Allders said it "looked favourably" on Swissair's £160m ($243m) offer, which was made after BAA raised its offer from £130m to £145m and said it would not go above. But Allders stopped short *of formally recommending the* offer to shareholders pending clarification of several issues. "We have to be confident that shareholders will approve the Swissair offer before we put it to them," said Allders.

A day of drama began yesterday morning when BAA lifted its offer for Allders International, the Allders duty-free unit, from £130m to £145m, only to be topped almost immediately by *Swissair which raised its bid by* £15m to £160m. BAA said it was not prepared to raise its offer further, but did not formally withdraw from the battle.

Shares in Allders responded to the auction by climbing 8 per cent to 215p. Swissair's latest offer is worth £30m more than the BAA terms which Allders was recommending until Tuesday.

Mr Des Wilson, of BAA, said: "*We are not going to raise our* offer, but we are examining a number of options to press on with our strategy of developing our worldwide duty-free business."

It is widely presumed that BAA will move to cancel the management contracts it has with Allders at seven UK airports, including Heathrow and Gatwick, and set up its own duty-free operations. Allders also has duty-free operations in Europe, North America and Australasia.

It was unclear last night whether an extraordinary general meeting, called to vote on BAA's original £130m offer, would go ahead next Monday – or whether a new meeting would be convened featuring a fresh resolution and the Swissair terms. Allders said it accepted there was a firm offer for £160m on the table from Swissair, but it still needed to clarify some points.

Swissair has said it wants to build up its duty-free activities through its Nuance subsidiary, partly to reduce its dependence on its core airline business.

Analysts say it is paying a hefty price for the Allders business, given the likely loss of the BAA management contracts and a European Union threat to scrap duty-free sales from 1999.

Intra-European sales account *for a third of the Allders duty-*free business, which last year made operating profits after exceptional items of £11.7m.

Lex, Page 14

BBA may scupper Varity deal

By Tim Burt in London

George Simpson of Lucas, left, and Victor Rice of Varity, bottom, attacked the logic of a BBA bid while BBA's Roberto Quarta, top, said Lucas and Varity had overstated the benefits of their tie-up

BBA Group, the British engineering company, yesterday threatened to scupper the £3.2bn ($4.8bn) merger between Lucas Industries and Varity Corporation of the US by mounting a hostile bid for the UK automotive and aerospace manufacturer.

The company, which has been considering a Lucas bid for more *than a year, was forced to clarify* its intentions by the Takeover Panel, which regulates and monitors takeovers in the UK, following intense market speculation that it was weighing up an offer of about £2.5bn.

BBA said it was reviewing the possibility of making an offer following the announcement last week that Lucas and Varity were merging to create the world's second largest brakes manufacturer.

Shares in BBA fell 21½p to 295½p amid concern among some institutional investors and City analysts that the company could not afford the deal without risking earnings dilution. Lucas shares rose 8p to close at 254p, valuing the company at £2.24bn.

One BBA shareholder praised the group's return to profits under Mr Roberto Quarta, chief executive, but said: "This deal may be too big to swallow; it's *risky and it lacks clear focus.*"

Although other investors also expressed misgivings, BBA indicated that many institutions were supportive. If it proceeds with an offer, BBA is expected to announce a hefty rights issues and draw on more than £500m of borrowings to fund the deal.

Mr George Simpson, the Lucas chief executive departing shortly for GEC, said a BBA bid would be opportunistic and illogical.

Mr Victor Rice – the Varity chairman who is due to succeed Mr Simpson at the merged group – *said: "The idea of a BBA bid is* ludicrous. The industrial logic behind Lucas and Varity is so strong that it it would be very difficult to challenge it."

Mr Quarta told shareholders that Lucas and Varity had overstated the benefits of their tie-up. He claimed there was more synergy by adding Lucas's brakes business to its friction products arm, one of the world's top three brakepad manufacturers.

However, Mr Simpson rejected that argument, pointing out that other component suppliers such *as Robert Bosch of Germany* regarded friction products as a low-value commodity business.

Some analysts suggested the uncertainty over the future of Lucas would encourage other bidders to emerge. But Siemens, regarded as a possible white knight, said it had no interest in joining the fray. Other contenders are thought to include Mannesmann and Linde, the German engineering groups.

BBA is today expected to canvass more shareholders about the bid. It is understood to have an *offer fully underwritten and* could announce the terms of a hostile deal this week.

Varity, yesterday announced a sharp fall in first-quarter net income from $34.2m to $22m on reduced sales of $585.1m ($595.3m).

In New York, Varity shares fell $1⅛ to $47⅝, in early trading.

Lex, Page 14

Dasa signs over control of Dornier

By Andrew Fisher in Frankfurt

Daimler-Benz Aerospace (Dasa) yesterday used a legal manoeuvre to override objections from shareholders in its loss-making Dornier aircraft subsidiary to sign over control to Fairchild Aircraft Holding of the US.

Dasa said Fairchild would hold 80 per cent of a new holding company into which Dornier's civil aircraft activities would be transferred. The deal does not include Dornier's military aircraft business, property assets or non-aerospace activities in space, defence and satellite technology.

The announcement was made after a meeting of Dornier shareholders at which most family-owned shares were voted in favour of the deal, though a handful voted against. Because of the legal terms under which Daimler-Benz took control of Dornier in the late 1980s – it now owns 57.5 per cent – the Dornier family in theory has a veto right over important decisions concerning the company.

But Dasa said the veto did not apply in the case of the Fairchild contract because it involved a separate holding structure rather than an outright sale. Dasa *announced this "detour" solu*tion" last week and has threatened minority shareholders with a DM719m ($479m) lawsuit if a deal was blocked. It said yesterday the veto also went against shareholders' responsibility for Dornier's well-being.

Dornier will have a 20 per cent stake in the new holding company. Dasa said the deal substantially improved the chances for continued success of the Dornier 328 regional 33-seater aircraft and thus for the survival of the Oberpfaffenhofen plant near Munich which employs about 2,200 people.

However, Fairchild's plans are reported to involve the loss of *about 500 jobs. While Dasa is* expected to provide around DM300m to help cover future Dornier losses and redundancy costs.

Dasa said it had stressed the need for job security and the continuation of the present production programme at the start of negotiations with Fairchild.

Fairchild had made profits since 1991, despite deteriorating market conditions, Dasa said. Dornier, on the other hand, made a DM499m loss last year. This was part of an overall DM5.7bn loss by the Daimler-Benz vehicle, aerospace and engineering group which has forced it into extensive rationalisation and cost-cutting.

No financial details were given *for the Fairchild transaction* through which Daimler-Benz aims to solve one of its trickiest remaining problems.

UK pair to stand for Danzas board

By Frances Williams in Geneva

Directors of Danzas, the Swiss freight forwarder, are resisting attempts by Sir Michael Edwardes, former chairman of British Leyland, and Mr Nicholas Berry, a UK investor, to join the board to help improve the company's lacklustre performance.

Mr Berry, who owns 3.3 per cent of Danzas's registered shares giving him a 2.5 per cent capital stake, has also offered shares worth SFr1.4m ($1.1m) to set up a performance-related share option scheme for management. Such an offer by a shareholder is thought to be unprecedented in Switzerland.

Mr Berry also wants Danzas to return value to shareholders.

Foreign investors rarely intervene in Swiss corporate affairs. Until recently they were barred even from owning voting shares in most big Swiss companies. Swiss investors have traditionally left managements to run their companies unchallenged.

But there have been signs, notably in the battle between Union Bank of Switzerland and its biggest shareholder, Mr Martin Ebner, that investors have become keener to exert influence.

Mr Berry, chairman of Barlows, the UK property company, and of specialist publisher Mintel, said he and Sir Michael would put themselves forward at Danzas's annual meeting on June 14.

Despite the opposition of the current board, Mr Berry said that he expected significant support from discontented shareholders.

Danzas, one of the world's biggest forwarding and logistics groups, has produced indifferent results for some years. Last year, turnover fell more than 9 per cent to SFr4.02bn, while net profits halved to SFr6m. This year it announced a reorganisation and the loss of 2,000 jobs.

Separately, Danzas said yesterday it had signed a letter of intent for European co-operation with UPS of the US, the world's largest package distributor.

Australia launches A$4bn sale of bank stake

By George Graham in Sydney

The Australian government yesterday launched the country's first sale of partly-paid shares as part of its biggest public share offer, the A$4bn (US$3.2bn) privatisation of Commonwealth Bank.

Mr John Fahey, finance minister, said the government would sell its remaining 399.1m shares, a 50.4 per cent stake, in Commonwealth, Australia's largest retail bank, for a first instalment of A$6.00 per share.

The final price will be fixed on July 13, after orders have been received from investors, and the second instalment will be due in November 1997.

The government sold a 30 per cent stake in Commonwealth in 1991 and another tranche in 1993, cutting its holding to 50.4 per cent. The final privatisation this year will involve four elements:

● *The buy-back from the govern*ment by Commonwealth of 100m of its own shares, at a maximum price of A$10.70 a share.
● An entitlement offer to existing shareholders, who may apply for one government share for every four they now own.
● A public share offering backed by a large sales campaign.
● An institutional offering of a minimum of 140m shares.

Commonwealth shares closed 4 cents higher at A$10.04 yesterday, but the final offer price is expected to involve a premium to the market because investors will only have to pay the first A$6.00 instalment up front.

Investment bankers managing the issue said the idea of partial payment had been borrowed from British privatisations, but the details had had to be adjusted. In the UK, the government has held on to the partly-paid shares, but *in Australian law, investors* would have been liable to capital gains tax when they paid up the final instalment. To counter this, the shares will be held in the interim by a trustee, while investors will be given a tradeable "instalment receipt".

Because investors will be entitled to 18 months of dividend payments before they have to pay for their shares in full, the investment is estimated by Mr Alastair Hunter, analyst at brokers J. B. Were & Sons, to yield an annual return of 17.2 per cent – or 26.8 per cent gross for Australian investors who can benefit from the attached tax credits.

Mr David Murray, Commonwealth's managing director, said his was "one of the few government banks in the world to have come out of state ownership in such terrific shape".

Nevertheless, he said privatisation would allow the bank to manage its capital more flexibly, even though for the time being it was flush, with a Tier 1 capital adequacy ratio of 8.7 per cent even after the share buy-back.

The organisation's culture *would benefit from clarity about* its ownership, he said.

Australian bank shares have been hit over the last week by the sale of a 6 per cent stake in Westpac Banking and by increasing competition over mortgage prices. Commonwealth led the way by cutting its mortgage rate from 10.5 per cent to 9.9 per cent.

That led analysts to cut profits forecasts for 1996-97 to about A$1.1bn but because of the share buy-back, earnings per share are still expected to grow nearly 6 per cent to A$1.25.

Bank officials are now embarking on a 2½-week roadshow in the eastern Asia, Europe and North America in preparation for the institutional offering July 9-12. The domestic public offering and the entitlement offer to existing shareholders will run from June 17 to July 5.

Saab approaches crossroads after six-year overhaul

Swedish carmaker's tie-up with GM's Saturn unit is a milestone in its relationship with its US part-owner

Keith Butler-Wheelhouse, the chief executive of Saab Automobile, jokes that the Swedish carmaker is "a wart on the tail of the dog" because it is such a small part of the empire of General Motors of the US, which manages and half-owns Saab.

In recent years the "wart" has caused some pain, running up almost SKr9bn ($1.34bn) in net losses since GM bought a half-share in 1989 and fuelling speculation among motor industry watchers that Saab is fighting a losing battle for long-term viability.

Late last year, GM's Swedish co-owner, the Wallenberg group Investor, publicly expressed concern about Saab's future as it tumbled back into the red. Although Saab returned a small full-year profit in 1995, it ran up losses of SKr333m in the first quarter of this year as car sales fell 12 per cent.

But Saab's British-born chief is anxious to rebuff the impression that Saab's survival is in question. "We are a boutique, yes," says Mr Butler-Wheelhouse. "But there is still a place for us in the world market."

Saab, he adds, still fulfils the promise for GM of winning customers willing to pay a premium for a high-priced, European luxury marque which is not otherwise available in the GM range of models.

"This brand appeals to different customers and we can't replace those customers [with other GM brands]," he says.

In fact, Mr Butler-Wheelhouse argues, Saab is only just reaching what he calls the crossroads in its six-year overhaul by GM. To date, the company has slashed staff and introduced lean manufacturing techniques and is producing its annual output of 100,000 cars with half the workforce it needed for the same numbers in 1990.

It has made heavy cost savings by integrating component purchasing and manufacturing with GM companies. Crucially for a company competing with the likes of BMW and Mercedes, it is also receiving high quality ratings after dismal rankings in the past.

"Net of exchange rate fluctuations, we are basically breaking even now," says Mr Butler-Wheelhouse. "The key to the future is to sell a lot more cars."

After almost four years in charge, Mr Butler-Wheelhouse is increasingly tipped to be moved on by GM soon. But he has set in train two developments crucial to Saab's quest to "sell a lot more cars".

Saab Automobile

	Profit/(loss) Skr	Car sales
1990	(3.25 bn)	90,200
1991	(2.24 bn)	87,500
1992	(2.89 bn)	86,800
1993	(1.37 bn)	73,600
1994	702 m	88,700
1995	275 m	96,700
1996*	(333 m)	22,400

* 1st quarter Source: Company reports

The company is to launch a new model early next year and is setting out to revamp its sales and distribution network with the aim of increasing its volumes by 50 per cent by the end of the decade.

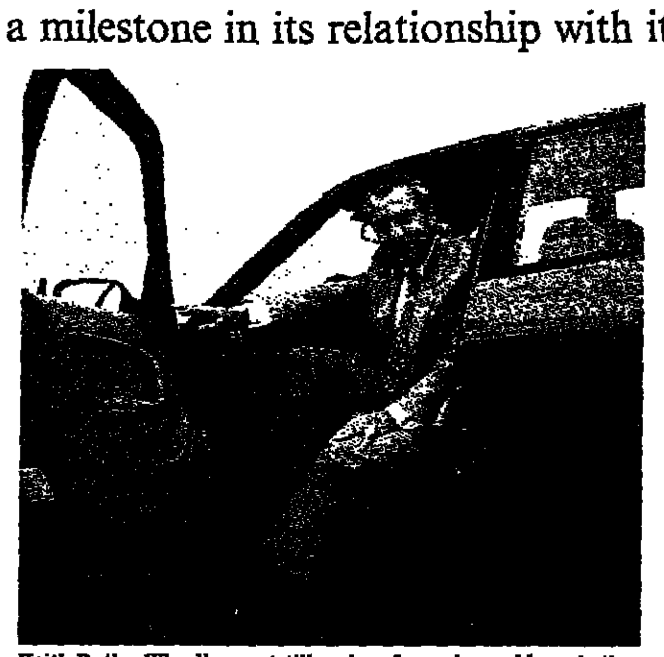
An important step is being taken in the US – Saab's biggest market – where Saab is aiming to capitalise on the success of GM's Saturn subsidiary, which has built up strong sales and high customer loyalty in recent years.

Saab has hired Mr Joel Manby, a senior Saturn executive, as its US chief and says more Saturn executives will be brought in to shake up the Saab US operations.

A vital part of the Saab strategy is to retain its individual brand identity. But Mr Butler-Wheelhouse says it now intends to copy Saturn's sales, distribution and servicing techniques and eventually develop closer co-operation "behind the scenes" between the two operations.

Saab's 300-strong string of dealers in the US is to be overhauled to achieve a broader geographical spread – its sales are concentrated in the north-east, the west and the Chicago area – and to shadow more closely the Saturn network.

In time, Mr Butler-Wheelhouse says, some Saturn dealers may take on Saab dealerships.



Keith Butler-Wheelhouse: 'still a place for us in world market'

The overall aim is to raise US sales from 25,500 last year to 40,000 a year by 2000.

Saab is also to focus its sales efforts on the UK, France, Germany, Italy and Japan, which it identifies as the top potential growth markets for its class of cars.

Closer co-ordination with GM networks in these countries is also on the cards. One example cited by Mr Butler-Wheelhouse is fleet sales in the UK, where Saab could be a top-of-the line complement to Vauxhall's range.

The push to enhance sales comes as Saab is preparing to add to its two-model range with a new car next year, code-named the 640.

Saab has surprised motor industry observers by revealing that the new car, to be launched in the first half of 1997, will add to its 900 and 9000 models, not replace the latter as was originally understood.

The new car, built on a new GM-derived platform, or chassis, will become Saab's top-of-the-range model, pitched above the old 9000 in specification and designed to compete against cars such as the Mercedes E-class and BMW 5-series.

It will include an estate-car version to be launched in 1998 – the first Saab estate since the 1960s.

Motor industry analysts have argued that Saab needs both bigger volumes and enhanced exploitation of its links with GM to survive. But the company is attempting to achieve these against a background of weakening sales and tough price pressure.

"It should be possible to secure a niche of the size Saab wants. The question is whether it can be profitable," says Mr Nigel Griffiths of DRI McGraw Hill in London.

Both GM and Investor evidently believe it can. Despite the clear reservations it expressed late last year, Investor has since restated its commitment to Saab and both owners are thrashing out the terms of a new refinancing package to carry the company through its next stage of development.

No details of the size or shape of the refinancing have yet been revealed, but Mr Butler-Wheelhouse says they are based on the assumption that Saab will have established sustainable profitability by the turn of the century.

As the owners have already jointly stumped up SKr8bn in earlier capital injections, the pressure on Saab finally to achieve that target is great.

Hugh Carnegy

Fanjul due to step down tomorrow as Repsol chief

By Tom Burns in Madrid

Mr Oscar Fanjul is due to resign tomorrow as chief executive of Repsol after the Spanish energy company holds its annual meeting, to be replaced by Mr Alfonso Cortina, chairman of the cement company, Portland Valderribas.

Mr Cortina will join Repsol's board today.

The change at Repsol, which is 10 per cent state-owned, follows the formation of a centre-right government last month and is one of the most controversial of those in progress in leading corporations linked to the public sector.

Mr Fanjul's departure has caused concern among international institutions, which represent some 32 per cent of the oil, gas and chemical group's equity.

Critics of the move say that Mr Fanjul has been responsible for the corporation's successful expansion over the past decade and that he has fallen victim to the machinations of Banco Bilbao Vizcaya, the big domestic bank which owns 7 per cent of Repsol's shares.

Mr Cortina became a member of BBV's board in October last year, after he invested about Pta3bn ($23.2m) to become the bank's largest individual shareholder with some 0.3 per cent of its equity.

He will join BBV's chairman, Mr Emilio Ybarra, who was already a Repsol director, on the energy group's board.

BBV is expected to gain another Repsol board post tomorrow, when six directors, including Mr Fanjul, who were appointed by the previous government, are due to resign from the 16-member board.

The boardroom reshuffle will allow La Caixa, the Barcelona-based savings bank which has recently acquired 3 per cent of Repsol, to appoint two directors.

Pemex, the Mexican energy group which controls some 5 per cent of Repsol's stock, will increase its board nominees from one to two.

A similar arrangement among core shareholders and the government will usher in a new chairman at Telefónica, the telecoms group which is 20 per cent state-owned.

BBV, La Caixa and Argentaria, the partially privatised banking group, together control close to 10 per cent of Telefónica's equity and they are expected to back the appointment of Mr Juan Villalonga in place of Mr Cándido Velázquez.

Mr Villalonga, a merchant banker, is a close friend of prime minister Mr José María Aznar, the leader of the Popular party.

He left CS First Boston last year to join Bankers Trust as the senior executive of its office in Spain.

The succession appears less smooth at Caja Madrid, the biggest domestic savings bank after La Caixa, where the board, under the guideline for savings banks, is made up of representatives of all political parties, trade unions and local institutions.

A majority of the board is said to oppose the government's plan to replace current chairman, Mr Jaime Terceiro, with Mr Miguel Blesa, also a member of Mr Aznar's circle of close friends and the Popular party's representative on the Caja board.

Mr Feliciano Fuster, the chairman of Endesa, the electricity generator which is 66 per cent state-owned, said yesterday he had offered his resignation to the new government and still did not know whether it had been accepted.

Mr Fuster is expected to stay on for the time being in order to steer through a disposal of Endesa shares later this year.

Oscar Fanjul: institutions are concerned at his departure

Iri in the black but warns on debt level

By Andrew Hill in Milan

Iri, the Italian state holding company, yesterday reported its first profit at group level since 1990 thanks to continuing disposals which raised about L1,400bn ($906m).

But the group again warned that if it failed to sell its stake in Stet, the telecoms holding company, this year it would miss European Commission targets on debt reduction.

The state holding company also postponed approval of Alitalia's plan for a L3,000bn capital increase over the next five years, because unions had not yet approved the drastic restructuring proposed by the state airline's new management.

Iri reported a consolidated group profit of L638bn after tax for 1995, compared with the 1994 loss of L354bn. After minority interests, Iri's share of the subsidiaries' results was a loss of L1,193bn, against L1,750bn in 1994. Operating profit at the group rose from L8,691bn to L8,243bn.

Parent company losses also narrowed to L345bn, compared with L1,471bn in 1994, but debt remained high. At parent company level, net debt was L22,456bn at the end of 1995, against L23,040bn a year earlier. In 1993, the Italian government committed Iri to cut parent company debt to about L4,600bn by the end of this year.

Although Iri also intends this year to sell its shares in Autostrade, the toll-road company, only the sale of Stet would raise sufficient money to reach the target. The new government has indicated in the past few days that although the privatisation is a priority, it could take time to establish the regulatory mechanism for the sector.

At group level, Iri was carrying some L56,100bn of debt at end-1995, L4,200bn less than at the end of 1994.

Iri, which owns 90 per cent of Alitalia, said it had decided not to attend the airline's June 10 shareholder meeting to approve the planned capital increase.

That means approval of the plan – which envisages an initial L1,500bn capital injection from Iri – will slip to June 28 at the earliest. To date, only Alitalia managers have approved the restructuring, which will involve almost 3,000 job losses.

NEWS DIGEST

VW lifts market share in W Europe

Volkswagen, the German vehicles group, reported a 14.4 per cent rise in unit sales for the five months to May, because of strong demand in western Europe outside Germany. Europe's largest carmaker said its west European market share had risen from 16.5 per cent to 17 per cent. West European unit sales outside Germany surged 21.7 per cent, while in Germany unit sales rose 1.9 per cent to 426,000 vehicles.

At the company's annual meeting, Mr Ferdinand Piëch, chairman, said "the good start in 1996 notwithstanding, the Volkswagen group has not yet achieved its financial aims", promising further productivity improvements.

Yesterday's meeting was preoccupied to a large extent with VW's dispute with General Motors, the US motor group, over allegations that VW had engaged in industrial espionage. VW recently launched a defamation suit under German law to stop GM making what it considers defamatory claims, while GM brought a civil suit in a US court. Mr Klaus Liesen, chairman of the supervisory board, yesterday reiterated that VW had never been in in possession of internal GM documents. A German prosecutor is to decide later in the year whether to bring criminal charges in connection with the allegations.

Wolfgang Münchau, Hamburg

Sol Melia drops US plan

Spain's Sol Melia hotel group, which has interests in Cuba, has cancelled the US part of its $275m international flotation because of a new US law which attempts to ward off investment on the island, bankers involved in the transaction said yesterday.

It is understood that UBS, the bank arranging the transaction, has decided not to proceed with plans to sell the equities into the US because of the problems which could arise from the legislation and will concentrate on placing the shares with European investors instead.

US banks involved in the offering are also believed to have pressed for the US tranche to be cancelled for fear of becoming tainted in the eyes of the US authorities. Part of the so-called Helms-Burton law seeks to refuse US visas to senior executives of foreign companies considered to have trafficked with property expropriated by the Cuban government from US nationals.

Mr Jaime Puig de la Bellacasa, Sol Melia's deputy financial director, told the Financial Times last week that although the company's lawyers had given the all-clear, Sol Melia was prepared to abandon plans to market the shares to US investors.

Antonia Sharpe

SA Breweries in Polish move

South African Breweries, the brewing and hotels group, has become a strategic investor in Poland's Lech brewery in Poznan in partnership with Euro Agro Centrum, a local food processing company. SAB already owns breweries in Hungary and Romania. The South African company, backed by EAC, is expected to win a tender for a controlling stake in the state-owned Tychy brewery, Poland's second-largest producer which controls a 12 per cent share of the market.

The Lech brewery was privatised two years ago through a sale to EAC which is owned by Mr Jan Kulczyk, a local entrepreneur. EAC then promised to retain a controlling interest in Lech until the end of next year. However, SAB now has a third of the places on the brewer's supervisory board and has executives in key positions at the company.

SAB won control of a 15 per cent stake in Lech by buying shares in an offshore company owned by Mr Kulczyk which currently holds 43 per cent of the brewery's equity. Terms of the sale which took place last autumn have not been disclosed. EAC originally paid 30m zloty ($7.5m) in September 1993 for a 40 per cent stake in Lech and promised to invest $66m in the brewery.

Christopher Bobinski, Warsaw

Greeks buy Turkish mine stake

Silver & Baryte Ores Mining, the Greek perlite and bentonite producer, has acquired a 49 per cent stake in Pabalk, a Turkish mining company, as part of its strategy of diversifying sources for its perlite processing operations. The move is unusual for a Greek company as Greek-Turkish political differences tend to discourage cross-border investment.

Silver & Baryte said the $1m investment was made through the group's German subsidiary, S&B Holding. Pabalk produces around 30,000 tonnes a year of high-quality perlite at mines in the Marmara region near Istanbul. The Greek company has also bought a 50 per cent stake in Sarda, a perlite producer in Sardinia for about $1.5m. Sarda produces about 65,000 tonnes yearly of raw perlite.

Silver & Baryte is Europe's largest producer of perlite, mainly used as an insulating material. Its pre-tax profits for 1995 rose 58 per cent to Dr3.1bn on a 40 per gain in turnover to Dr13.3 bn ($55m).

Kerin Hope, Athens

Rhône-Poulenc set for disposals worth FFr1bn

By Jenny Luesby

Rhône-Poulenc, the French chemicals company, is set to announce the sale of US drugs businesses worth more than FFr1bn ($193.4m), as part of a FFr10bn programme of disposals aimed at halving the group's unwieldy debt burden.

Mr Igor Landau, head of the group's health business, said this week "a major sale" would shortly be announced on the drugs side.

His comments reignited speculation that the group might be considering selling part of its 68 per cent stake in drugs company Rhône-Poulenc Rorer, in order to reduce debt following the £1.8bn ($2.8bn) acquisition of UK drugs business Fisons.

However, the group is poised to announce the sale of much of the US drugs business acquired with Fisons.

Rhône-Poulenc has said it planned to halve its gearing from 72 per cent within two years through drugs and chemicals disposals and the sale of its stake in Société Générale.

So far, this strategy has raised FFr3.5bn on the chemicals side, with the disposal of the group's US soda ash business and its plastic films operation. The next sale will be of drugs businesses in the US.

According to one pharmaceuticals analyst, the sale is unlikely to include the respiratory drugs that account for two-thirds of Fison's US drug sales. "This area is a core business for RPR, and they have made clear they intend to hang on to it," he said.

However, nearly all of the businesses acquired by Fisons in 1988 when it bought US drugs company Pennwalt for $460m are set to be sold.

The main brands involved are Ionamin, an appetite suppressant, and Zaroxolyn, a diuretic for heart failure and kidney disease, with combined sales last year of $43m. But the disposal is also likely to include smaller branded drugs, such as Americaine, Microx and Hylorel, as well as assorted cough and cold treatments, with combined sales of around $50m.

Analysts expect the disposal to raise between FFr1bn and FFr1.4bn.

Meanwhile, Rhône-Poulenc remains emphatic that it has no plans to reduce its stake in RPR, or to change the structure of the group. Analysts say they, too, would be surprised if such a sale were announced in the short term.

"It will not come as part of the current drive to reduce debt," said one, "but it is likely to come eventually."

The group is, however, pursuing further decentralisation of its operations. In this vein, it announced yesterday that it would be cutting between 400 and 450 jobs at its corporate headquarters in Paris.

Eridania team to buy Navigation Mixte unit

By Andrew Jack in Paris

Navigation Mixte, the conglomerate which was taken over by French financial group Paribas earlier this year, yesterday announced the sale of its subsidiary Compagnie Française de Sucrerie for FFr2.85bn ($550m).

The purchase by a group of leading rival sugar producers in France co-ordinated by Eridania Béghin-Say, the Franco-Italian agro-food group, removes some fears within the country that CFS, which holds 12 per cent of the domestic market, might otherwise have been taken over by a foreign buyer.

The sale also marks the first significant step towards a restructuring and possible break-up of Navigation Mixte, which owns a range of assets including banking, insurance, tuna canning, transport, weighing instruments and safes.

André Lévy-Lang: holds 97.66 per cent of Mixte shares

Subject to regulatory approval, Eridania Béghin-Say will buy CFS and then sell on 52 per cent of it: one-third to Générale Sucriére, a subsidiary of Saint-Louis, and the remaining two-thirds to five agricultural co-operatives.

The deal reinforces Eridania's position as the largest sugar producer in France. It plans to retain two of CFS's five factories, and sell two to the co-operatives and the remaining one to Générale Sucriére.

Until the announcement of the sale yesterday, Navigation Mixte, which reported losses of FFr1.5bn for its 1995 financial year, had sold little except Champagne de Venoge, a small champagne producer, and had pledged to dispose of Sidhet, which owns a hotel in Tunisia.

The move follows months of reflection by Mr André Launois, Mixte's chairman, who was appointed by Paribas in discussion with other large shareholders in the conglomerate after they unexpectedly dismissed his predecessor Mr Marc Fournier at the annual general meeting last year.

Mr André Lévy-Lang, Paribas' chairman, announced in March a full takeover for the group, and now holds 97.66 per cent of the shares.

The FFr8.7bn cost of the bid is to be funded from Navigation's own resources, including FFr3bn in cash reserves.

Infostrada in deal with Autostrade

By Andrew Hill in Milan

Infostrada, the Olivetti-led telecoms joint venture, has reached a preliminary agreement to lease telephone lines from Autostrade, the Italian state-controlled operator of toll highways, as the race for alternative telecoms infrastructure gathers pace in Italy.

Potential competitors of Telecom Italia, Italy's state-controlled telecoms operator, have stepped up their search for rival networks ahead of next month's Europe-wide liberalisation of alternative infrastructure.

Olivetti, the information technology and telecoms group, said the accord with Autostrade would allow Infostrada, a joint venture with Bell Atlantic of the US, to use the telecoms network as soon as EU directives on liberalisation had been implemented in Italy.

By July 1, the date for infrastructure liberalisation, Ferrovie dello Stato, the Italian state railway, will have to choose a partner to buy a majority stake in its 1,600km fibre-optic network, which has an estimated value of some L1,000bn ($647m).

FS said yesterday that Lazard and Paribas, which are handling the sale, had received expressions of interest from many of the principal operators, including Infostrada and its allies France Télécom, Deutsche Telekom and Sprint of the US.

Italian newspapers have also reported that Nippon Telecom and Telephone of Japan, and AT&T of the US and its European partner Unisource are interested in the FS network.

"The aim of these new entrants is to be well-placed both to compete on fixed telecoms links, but also to bid to become the third mobile telephone company in Italy," said one telecoms executive.

The length of Italy and the inaccessibility of certain areas means that buying an existing network or leasing lines is the most sensible option for many new entrants.

Other owners of alternative infrastructure include Snam, the gas subsidiary of Eni, and Enel, the electricity producer.

Albacom, a joint venture between British Telecommunications and Banca Nazionale del Lavoro, linked up last month with Mediaset, the media company controlled by Mr Silvio Berlusconi, to exploit the telecoms potential of the group's television network. Albacom has also been discussing possible links with Snam's network.

Olivetti said yesterday its agreement with Autostrade was not exclusive, and would complement Infostrada's existing network of communications nodes.

PT global offer heavily oversubscribed

By Peter Wise in Lisbon and Andrew Hill in Milan

A secondary global offering of 22 per cent of Portugal Telecom, which closes tomorrow, is heavily oversubscribed, while demand for a domestic retail offer of 11m shares has exceeded the shares available by nine times, brokers said yesterday.

Demand for the main tranche – 26.35m shares being sold directly to international institutional investors through a book-building system – was about three times more than the shares on offer, they said. This means an option to sell a further 3.95m shares to cover over-allotments is almost certain to be exercised.

Brokers are hoping for a discount to the market price when Portugal fixes the offer price next Monday, the day before trading in the new shares begins. The shares closed at Es3,694 yesterday, down almost 1 per cent on Tuesday's close and a fall of 4 per cent on their record high of Es3,851, a week ago.

The shares have gained more than 28 per cent since an initial public offer of 27 per cent in June last year.

"Setting the price below Es3,600 a share would create a favourable climate for future privatisations," one London-based analyst said. "It would be prejudicial for Portugal if the share price fell substantially after the offer."

Portugal Telecom will account for about 11.5 per cent of the total market capitalisation of the Lisbon stock market after the offering – a post-flotation fall in the share price could bring the whole market down, a Lisbon broker said.

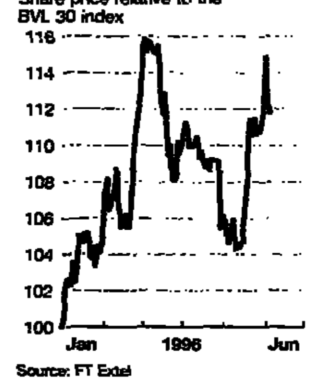
Meanwhile, Stet, the Italian telecommunications holding company, has confirmed it is interested in taking a strategic stake in Portugal Telecom in the next phase of privatisation.

Portugal Telecom is likely to decide on a strategic partner, expected to acquire a holding of 20-25 per cent, by the end of this year. This will require changing legislation to allow more than 49 per cent of the group to be privatised.

Stet, which is controlled by Iri, the Italian state holding company, said it had already acquired just under 0.5 per cent of Portugal Telecom through purchases on the open market. Deutsche Telekom and other leading European telecommunications operators are also understood to have expressed interest.

Portugal Telecom

Share price relative to the BVL 30 index



Source: FT Extel

Two EDS executives to move to Origin

By Paul Taylor

Origin, the outsourcing subsidiary of Philips, has lured two senior European group executives from EDS, the US-based computer services group.

Mr Geoffrey Carroll and Mr Tom Butler are to become Origin's chief executive and chief operating officer, respectively, replacing Mr Henk Cohen who is stepping down as chief executive to work on "special projects" for Philips Electronics.

Mr Butler, aged 44, was group executive for EDS operations in north Europe until he resigned unexpectedly three weeks ago. Mr Carroll held the same position for EDS in south Europe.

The two men were important members of the group's European team under Mr John Bateman, chief executive of EDS operations in Europe, who appointed them to the posts last August.

However, it is understood that both Mr Butler, who is British, and Mr Carroll, an American, had difficulty fitting into their new EDS roles which involved less "hands-on" work than their previous positions.

At Origin the two men will have the task of transforming a company which was viewed by many as an also-ran in the computer services sector until it won a £75m five-year contract from ICI earlier this year.

Hoechst pulls out of CFC substitutes

By Jenny Luesby

Hoechst, the German chemicals group, is pulling out of the market for CFC substitutes, with the sale of most of its fluorochemicals business to Solvay of Belgium.

The group, which had been using only half of the 30,000 tonnes of capacity at its main CFC-substitute plant in Frankfurt, said it "saw no likelihood of becoming one of the world's leading suppliers" in that market.

With the phasing out of CFC production under the Montreal protocol, many of the world's largest chemical companies have invested heavily in the development of CFC substitutes for use as refrigerants in industrial cooling systems.

However, even the three leading producers of CFC substitutes – Du Pont of the US, Elf Atochem of France, and ICI of the UK – reported a disappointing take-off in the market following the banning of CFC production in Europe in 1994 and the US in 1995.

Hoechst had developed five substitutes and begun producing three of them, with 4,000 tonnes of capacity at a new plant in Tarragona, Spain, in addition to its main plant and a CFC recycling facility in Frankfurt.

However, with sales last year of DM130m ($85.2m), the business failed to meet the performance targets necessary to make it a core activity, the group said.

Solvay, which will be drawing the Hoechst operation into a fluorochemicals business which had sales last year of DM370m, plans to lift the output in Frankfurt to the full 30,000 tonnes of capacity.

This coincides with reports of a surge in demand for CFC substitutes in the past six weeks.

In the US, sales of CFC substitutes doubled between April and May, according to Elf Atochem. Sales will be further boosted this autumn, when stocks of CFCs run out.

At the same time, smuggling of CFCs from developing countries, where production remains legal, has virtually ceased in the US following the imposition of strict penalties by customs authorities. It has also dropped sharply in Europe.

However, analysts say these factors are unlikely to prevent further consolidation in a sector that remains overcrowded.

BATA IN TRANSITION

Footwear family goes out of fashion

The group is still strong but recent upheavals may be only a start, says **Bernard Simon**

A relaxed atmosphere usually prevails at the quarterly meetings of Bata Shoe Organisation's board. Almost all the directors are long-time friends and trusted advisers of Mr Tom Bata, the energetic octogenarian who has held sway over the family shoe group for more than six decades.

The board meetings are held whenever possible in one of the dozens of countries where Toronto-based Bata makes or sells shoes. The day begins with an informal presentation by local management. At Mr Bata's behest, a small selection is on display of the roughly 1m pairs of shoes made or sold each working day in the far-flung Bata empire.

However, the mood was more expectant than usual when the board gathered in Padua, the centre of Italy's shoe industry, in April 1995.

A new management team headed by Mr Stanley Heath, the first chief executive from outside the family in Bata's 102-year history, had just completed a review of the group's European operations. Its conclusions were grim.

Losses were mounting at retail chains in Germany, Belgium, the Netherlands and one of Bata's four subsidiaries in France. The directors were told drastic action was needed, including concessions from lenders and a quick sale of some of the most troubled businesses.

Mr Heath and his team had prepared their ground carefully. They knew that Czech-born Mr Tom Bata and his Swiss-born wife Sonja would balk at severing big chunks of Bata's European operations, or risking a confrontation with the group's long-time bankers. Several non-family board members were quietly briefed on the management proposals before they arriving in Padua.

The strategy appeared to work. The entire board, including the Batas, went along with the restructuring plan.

However, getting the proposals approved turned out to be the easy part. Implementing them triggered upheaval in one of the world's biggest family-owned businesses.

Mr Heath and several of his senior managers resigned five months after the Padua meeting amid growing friction with Mr and Mrs Bata. Those who left included the newly-recruited chief financial officer and the head of Bata's European operations.

Nor did the European restructuring go smoothly. Although buyers were found for retail chains in France, Germany and Belgium, problems at Myrys, another French subsidiary, could not be resolved. Myrys, which operates 227 stores and several factories, filed for bankruptcy protection in April. The 110-outlet German subsidiary was sold to Facia of the UK, which has now entered insolvency proceedings.

Bata has also had its hands full in other parts of the world. In February, it unloaded Pic 'n Pay, a troubled 800-store chain based in North Carolina, for a nominal US$1 plus a long-term promissory note.

Less than a week later, Pic 'n Pay's new owners – a New Jersey-based vulture fund – put the company into Chapter 11 bankruptcy protection. Creditors, some of whom had little inkling of the chain's financial problems, were furious. NationsBank, the biggest creditor, is owed US$41m.

In total, Bata has shed about a fifth of its 6,000 retail outlets over the past year. The turmoil has strained relations with suppliers and lenders, and damaged morale within the company.

Perhaps most important, the upheavals have heightened uncertainty over what will happen when Mr Tom Bata, who turns 82 this September, hands over the reins.

In a rare interview at his Toronto home, Mr Bata describes the past few years as "an adjustment period" that had affected not only Bata, but the entire footwear industry.

The key to a shoe company's success has traditionally been an efficient, low-cost manufacturing base tied to an extensive distribution network.

But that changed in the mid-1980s when Nike and Reebok took the shoe world by storm. "Footwear very quickly became marketing driven, not manufacturing driven," says one US shoe distributor. Strong, distinctive brands and a flair for innovation became the key to healthy profits and sturdy growth.

In North America and western Europe, the cosy, main-street shoe store gave way to much bigger retailers in shopping malls, and to vast, low-cost superstores typified by Wal-Mart, the US retailing group, and Payless, another US chain where shoes sell for as little as US$9.99 a pair.

"Whereas at one time our retail operation was primarily a means of distributing the products of our own manufacturers," Mr Bata says, "in these much more sophisticated types of outlets, no manufacturer could possibly produce the variety of products which the consumer would like."

Bata was slow to keep pace with these changes. Its organisation, management style and corporate culture are steeped in the family business tradition, planted from Zlin, Czechoslovakia, to Canada in the 1930s before the Nazi occupation.

The key to a shoe company's success had long been a low-cost manufacturing base tied to an extensive distribution network. But that changed in the 1980s when Nike and Reebok took the shoe world by storm

Mr Bata, who began his working life as an apprentice in a Zlin shoe factory, rebuilt the business by tapping into an enormous market around the world for practical, sturdy shoes. According to one story, he once fired a salesman who returned from Africa with the gloomy assessment that the market for shoes was minimal because everyone walked around barefoot.

Bata grew rapidly in the 1940s and 1950s by setting up fully integrated shoe industries, from tanneries to shoe shops, across Asia, Africa and Latin America.

Many of the factories were located in company towns far from big urban centres. Bata provided houses, schools and other amenities for its workers. In exchange, it got a cheap, plentiful and loyal labour force. Tariff protection and other government incentives kept competitors at bay.

Managers of these overseas operations were plucked first from Bata operations in Czechoslovakia, and later from the Netherlands, the UK and Italy. They were given a high degree of autonomy. As one Bata-watcher puts it, "wherever you had a strong Czech, you had a strong company. Where you had a lousy Czech, you had a lousy company."

For decades, the Bata empire showed remarkable resilience. Its business in Uganda was twice taken over by the government, and twice handed back. The company bought a vegetable-exporting farm in Zambia to provide foreign exchange for imported chemicals for its shoe factory.

It installed a turnkey shoe-making system in a factory in northern China in the late 1980s – and was recently invited back to refurbish the plant.

Bata retains many hallmarks of a family business. It has never disclosed revenues or profits. Even senior managers are kept in the dark about many aspects of the company's performance. One former employee says that "everyone who is in that company is a long-term, loyal servant to [Mr Bata], and he has incredible power over them."

The only person approaching Mr Bata's influence is his wife. Mrs Bata, 69, has an office next to her husband's at Bata's modest headquarters in suburban Toronto. She sits on the boards of several well-known Canadian companies and has applied her energy and determination to set up a widely-acclaimed 10,000-piece footwear museum on Toronto's Bloor Street. The museum's recent purchases include a pair of Napoleon's socks.

The Batas appear to have missed an opportunity to revitalise the business in 1985 when Mr Bata handed over the chief executive's job to his Harvard-educated son, Tom Jr.

The younger Bata turned out to be a less forceful manager than his father. Some of his business decisions were questionable. For example, he spearheaded the purchase of the Myrys shoe chain in France, although it competed directly against existing Bata businesses. Mr Tom Bata Sr says blame for the Myrys investment rests with the entire board.

The family appeared ready to make a fresh start when Mr Tom Bata Sr turned 80 in September 1994. Tom Jr moved aside, and the owners turned to Mr Heath, a friendly but firm UK-born Canadian who previously headed the Latin American food operations of RJR Nabisco, the US consumer products group.

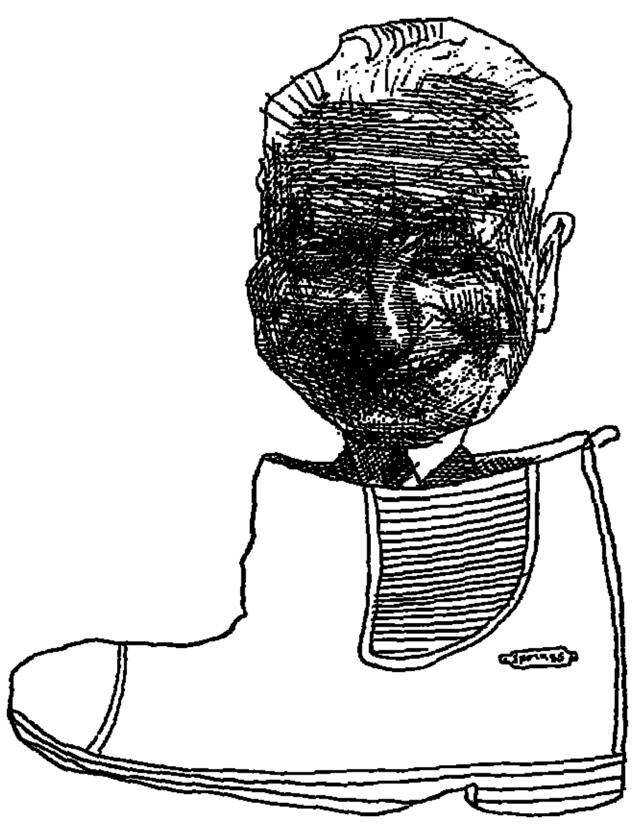
Mr Heath quickly began to put his stamp on the company. He told the Financial Times early in 1995 that he was "trying to create an environment in which at least the top 30-40 people around the world begin to buy into [a] sense of teamwork".

It was not to last, however. Within a few months of the Padua board meeting, relations had turned frosty between Mr and Mrs Bata on the one hand, and Mr Heath and his new team on the other.

Mr Bata described Mr Heath as "a very fine gentleman". But he noted that neither Mr Heath nor most of his recruits were "shoe people". According to Mr Bata, "this is a very, very peculiar business".

For their part, the new managers were irritated by what they saw as the owner's incessant interference in operations, often without their knowledge. As one said when they resigned last September, "you can't appoint a new chief executive and then poke your nose in all over the place".

In spite of the recent problems, Bata remains a force to be reckoned with in the international shoe industry. The company appears to be especially well placed to take advantage of trade liberalisation in Latin America and south-east Asia.



However, the disposal of Pic 'n Pay and the European restructuring may turn out to be the beginning rather than the end of change for Bata.

Mr Adrian Bellamy, an ex-South African retail executive who took over as chairman of Bata's holding company board in April, says Bata's operations "are regrouping around their considerable strengths. We don't want to be unpopular, but there comes a stage in the affairs of any company when you have to say 'this isn't working', and to concentrate on the things that are."

According to Mr Bata, "we are going to be pushing our merchandise from our own manufacturing units in different parts of the world with increased intensity." He lifted the veil on Bata's plans to a group of customers in Padua last month, and expects to unveil more details at the Düsseldorf shoe fair in September.

One thing Mr Bata is unlikely to do however, is share a slice of the family group with outsiders. The parent company contemplated a public offering in 1993 based on a study by Merrill Lynch, the US financial services group. But the idea, and several similar initiatives, never came to fruition.

Mr Bata noted that his friends in public companies spend much of their time on "extraneous things". Keeping all the shares in family hands "is much simpler", he says.

The big question however, is what may happen when the "interfering patriarch", as Mr Bata self-deprecatingly describes himself, is gone. Mr Bata, who looks 10 years younger than his age, says the company's future will be determined by his family and a group of trustees "with family influence". Each of his three daughters sits on the board of an operating subsidiary. Tom Jr, who now lives in Lausanne, Switzerland, spends part of his time overseeing the European restructuring.

Outsiders wonder whether Tom Jr will want another chance to prove his mettle as chief executive once his father is gone. Will his three sisters give him the opportunity, or will they want to get their hands on a piece of the family fortune? What role will be played by strong-willed Mrs Bata, and by the company's equally strong-willed managers in various parts of the world?

These imponderables suggest the recent upheavals at the family group may seem mild compared with what lies in store over the next few years.

Indian unit struggles in face of competition

By Kunal Bose in Calcutta

Bata India started its downhill journey in 1992, when it reported a full-year loss of Rs86m ($2.5m). It was widely thought that India's biggest shoemaker, 51 per cent owned by Canada's Bata Shoe Organisation, would quickly reorganise to meet competition from domestic manufacturers and imports. But it did not happen. This year the company reported a net loss of Rs5.49bn.

According to the parent, many of the Indian unit's problems stem from growing competition from low-cost imports and the virtual abandonment of Bata's time-tested policy of offering quality products at affordable prices, in favour of high-priced shoes and leather accessories for niche markets.

BSO reacted by posting a number of expatriate executives. Mr William Keith Weston, who was the regional director of Bata Pacific, replaced Mr P.K. Dutt as managing director.

The company modernised several stores, using some of the funds raised through a Rs480m rights issue to project a new image. But sales did not recover sufficiently. The group was left with stocks of high-priced shoes which it had to sell at a heavy discount.

Moreover, Bata's costs remain high. Employee costs represent about 20 per cent of sales, compared with as low as 7 per cent for new entrants. Mr Weston is trying to tackle high manufacturing costs by reducing outsourcing, hoping to raise Bata's in-house productivity.

Bata's 871 fully-owned stores also remain overstaffed. The most effective way of tackling the problem would be to sell stores to franchises, but this would face union resistance. As for capital costs, BSO has given an interest-free loan of $10m to Bata India which will be converted into equity later this year.

The money is being used to retire the company's high interest bearing debts.

Buoyant demand lifts Indian vehicle makers

By Kunal Bose in Calcutta

Buoyant demand for two and three-wheeled motor vehicles, enabling price rises, has resulted in healthy profit advances for Indian manufacturers. To cope with demand all the leading producers are investing heavily to raise production and introduce new models.

For 1995, Bajaj Auto, the country's largest manufacturer of two and three-wheeled vehicles, posted a 32.64 per cent rise in profits before tax to Rs5.95bn ($170m) on a 28.2 increase in sales from Rs22.09bn a year earlier to Rs27.94bn. Net profits rose 37 per cent to Rs4.18bn. Earnings per share were up 30.37 per cent from Rs40.17 to Rs52.37. The company plans to raise the dividend from Rs8 to Rs10 a share.

In spite of a strike lasting almost two months at its Waluj factory, Bajaj Auto raised production to more than 1.3m vehicles from 1.13m the year before. However, the company saw its share of the domestic market slip from 48.8 per cent to 46 per cent. Export income was up 45 per cent to Rs1.9bn. The company is raising the capacity of the Waluj factory to 2m vehicles a year.

TVS Suzuki, which raised its market share of mopeds and motorcycles in the face of stiff competition, saw pre-tax profits jump 60 per cent to Rs698m ($19.94m) on a 51 per cent increase in sales to Rs6.18bn. However, because of a sharp increase in the provision for tax, from Rs32m to Rs258m, net profits grew only 2.18 per cent to Rs345m. The company is aiming at turnover of Rs10bn in the current year. It is in the process of finalising a Rs3bn investment programme to build a scooter plant with capacity of 25,000 vehicles a month. The factory is to be commissioned by 1998, and will give the company a presence in every segment of the two-wheeler market.

Sales motor along: two and three wheel traffic in Delhi Tony Andrews

Hero Honda Motors, a joint venture between Honda of Japan and India's Munjal group, posted a 35.44 per cent rise in net profits to Rs263.4m on sales up 33 per cent at Rs6.33bn. The company, which sold 230,194 vehicles against 183,761 a year earlier, saw its market share improving. Earnings per share rose 35 per cent to Rs13.19.

The company hopes to commission a new motorcycle factory at Gurgaon in January which initially will have capacity of 100,000 vehicles a year. This will be doubled by September 1999. Hero Honda is also expanding the capacity of its existing factory at Dharuhera from 800 to 1,000 vehicles a day.

LML, a joint venture between Piaggio of Italy and India's Singhania group, posted a 48 per cent rise in sales to Rs5.12bn. Net profits were ahead 17 per cent at Rs308m. Earnings per share rose from Rs6.38 to Rs7.44.

The company, which raised scooter sales by 20 per cent to 239,353 units, is aiming at increasing manufacturing capacity to 600,000 scooters a year. Piaggio will make available technology as capacity is expanded.

Computing the benefits of a PC link-up

The NEC-Packard Bell tie-up is about expansion, but compatibility is in question

NEC of Japan and Packard Bell, the loss-making US-based home personal computer specialist, this week painted their PC joint venture as a big step into the cut-throat, $120bn global PC market. However, the benefits of the deal are already being questioned by industry analysts.

The two companies presented the link-up as the formation of a global force in PCs with potential combined revenues of about $8bn this year, making it the world's fourth-largest PC manufacturer after Compaq Computer, International Business Machines and Apple Computer.

Most analysts agree that in order to compete effectively, PC suppliers will need to form global alliances. This reflects the need to achieve economies of scale in terms of components purchasing, and shortening product life-cyles which mean that the window of selling opportunity for a new PC product may be as short as six months.

Integrating their operations outside Japan and China will certainly provide NEC with opportunities to expand its PC business beyond its domestic market, but the deal raises fundamental questions about whether NEC should expand these operations at all, and if so, whether Packard Bell is the right partner.

Overall the deal – foreshadowed in April when NEC invested $283m in Packard Bell, raising its stake from just under 20 per cent to an effective 40 per cent including preference shares - appears to be aimed at improving Packard Bell's financial performance and facilitating its continued rapid growth.

Packard Bell claims to have sold 4.5m PCs last year and has built up a solid position with low-cost multimedia machines aimed at the home PC market - the fastest growing segment of the world PC market in recent years. However, the company has had difficulty managing its rapid growth and has failed to make much impression on other markets, including the important corporate market and the continental Europe PC market.

For NEC, the deal may provide insurance against the day when its Japanese-language proprietary system can no longer compete effectively against international systems based on "open systems" technology. NEC is Japan's largest PC maker, but 90 per cent of its business is in Japan, where it has just under 50 per cent of the market, and where it has been under attack from lower-priced IBM-compatible machines built by competitors such as Fujitsu.

Overseas, NEC's presence - like that of Zenith Data Systems, the struggling PC subsidiary of France's Groupe Bull which Packard Bell acquired in April – has been largely restricted to notebook computers. However, integration with PB's business will bring economies of scale and provide NEC with much needed distribution channels in the US.

'By getting even further into PCs, NEC is increasing its exposure to low-end business' – Shigeru Yoshinaka, SBC Warburg

The Japanese company has expressed its ambitions to become a serious competitor in overseas markets. "The past 10 years were a period for NEC of catching up. The next 10 years will be a period in which NEC will enter the top league," Mr Takashi Kuwabara, general manager in charge of international PC businesses, says.

But some analysts questioned NEC's determination to pursue a market in which margins are becoming wafer thin. "By getting even further into the PC business, NEC is increasing its exposure to a low-end business," said Mr Shigeru Yoshinaka, industry analyst at SBC Warburg in Tokyo.

Mr Yoshinaka also questions whether a strategy that relies on a company with a very different management culture, and with a poor management record to boot, is a viable one.

NEC's growing involvement with Packard Bell follows its decision to take a 17 per cent stake in Groupe Bull of France as a way to promote good relations in the difficult European market. Since then it has found itself stuck in an expensive relationship from which it cannot get out. "It could find itself in the same situation with Packard Bell," Mr Yoshinaka says.

Meanwhile, other analysts, including Mr Peter Wolff, industry analyst at Baring Securities in Tokyo, fear the decision to keep Mr Beny Alagem on as head of the new company will make it difficult for NEC to make it a profitable business.

NEC, however, insists that the benefits go beyond the PC business. According to figures from Dataquest, the high-tech consultants, the combined Packard Bell-NEC operations would have had a US market share of 15.1 per cent in 1995 in terms of unit shipments, making it the market leader there.

NEC is betting that this large market share will also provides it with an opportunity to expand its PC-related products in world markets. For example, semiconductor makers are competing to establish their own chips as the standard for graphics and sound processing in home multimedia PCs. "If NEC and Packard Bell use the same chip for graphic accelerators, the chances are better that it will become an industry standard," Mr Kuwabara says.

The challenge for NEC is to ensure that those additional benefits it envisions do not get swallowed up by the problems its expanded PC interests are likely to generate. Meanwhile, it is clear that NEC is now in the Packard Bell driving seat.

Michiyo Nakamoto and Paul Taylor

Texas Instruments buys TDK arm

By Michiyo Nakamoto in Tokyo

Texas Instruments, one of the world's leading semiconductor makers, has acquired Silicon Systems (SSi), the US semiconductor subsidiary of TDK, the Japanese maker of magnetic tapes and electronic parts, for $575m.

The US group will acquire SSi's business in semiconductors for hard-disk drives, but not its communications products division nor its systems division, which TDK will retain.

The Japanese company plans to continue its involvement in electronic devices, which its says remain "a central element of TDK's long-term plans".

The sale of the US subsidiary, which TDK acquired in 1989 in a friendly takeover, reflects the shifting balance of strength in the semiconductor industry.

In the 1970s and 1980s, there was widespread concern in the US and Europe that Japanese semiconductor makers would dominate the world.

Although Japanese companies remain some of the largest and most successful semiconductor makers, the return of Intel, the US company, as the world's largest semiconductor maker, and the growing presence of Korean companies in the memory market – the forte of Japanese companies – has softened the threat.

TDK's decision to dispose of SSi, which had just begun a return to profit, surprised some industry watchers. However, the large amount of capital spending required of semiconductor makers is thought to have encouraged TDK to focus its capital spending in fewer areas.

SSi, which recorded sales of $407.2m in the year to March 1996, represents less than 10 per cent of TDK's overall business.

Corporate culture takes toll at Sony

By Michiyo Nakamoto

Japanese salarymen are noted for their dedication to the company, but there are growing signs that devotion to work extends dangerously to the higher echelons of the corporate hierarchy.

Mr Norio Ohga, 66-year-old chairman and chief executive of Sony, was yesterday still confined to a Tokyo hospital bed as a result, according to Sony, of overwork. His ill-health comes on the heels of the retirement of Mr Akio Morita, one of the founding figures of Sony, who collapsed on the tennis courts.

Norio Ohga: ill-health blamed on rigours of office

Mr Ohga, who last year handed over the day-to-day operations of Sony to Mr Nobuyuki Idei, president and chief operating officer, was taken to hospital after complaining of feeling unwell.

Sony's chairman had been particularly busy over the past few weeks in his role as chairman of the Electronic Industries Association of Japan, which represents the country's computer, semiconductor and consumer electronics makers.

Mr Ohga has been tackling the task of forging an agreement with the US Semiconductor Industry Association on private industry co-operation to replace the bilateral semiconductor accord, which expires at the end of July.

Mr Ohga's hospitalisation is likely to re-focus attention on the strenuous demands made on Japanese corporate employees, not least elderly executives. The Japanese word *karoshi*, which means death from overwork, underlines the seriousness of the problem.

Overwork, however, is not restricted to young men. Japanese executives tend to continue in highly demanding posts for longer than their western counterparts.

Although Mr Idei more or less runs Sony, Mr Ohga is actively involved in corporate affairs, according to the company. He became chairman after Mr Morita and forced to retire aged 73.

At 71, Mr Shoichiro Toyoda juggles the chairmanship of Keidanren, Japan's most influential business organisation, and of Toyota, the carmaker. However, his brother, Mr Tatsuro Toyoda, 67, who continued as president of Toyota while assuming the chairmanship of the Japan Automobile Manufacturers Association, was hospitalised last year and moved to the less demanding post of vice-chairman.

Orange County seeks $900m from issue

By Maggie Urry in New York

Orange County, the bankrupt Californian local authority, returned to the debt markets yesterday to raise nearly $900m, bringing the municipality a step closer to ending the crisis precipitated when it lost nearly $1.7bn on derivatives investments in late 1994.

However, the pricing of the long-expected bond issue, which was taking place late yesterday, will say little about investors' perceptions of the municipality, since insurance backing for the securities give them a AAA rating. Bankers said yesterday there was good demand for the bonds.

Orange County filed for bankruptcy in December 1994 after derivative investments plunged in value when interest rates moved against the County's position.

Investors in municipal bonds were afraid the county would default on its debts. As a result, investors would have been reluctant to buy any new bonds from the authority without insurance backing.

The bond issue represents a part of the county's plan to emerge from bankruptcy. The plan was put forward early last year and later revised. It met trouble when the county's affluent residents voted against a sales tax increase last June which was designed to help pay debts.

In July last year, investors agreed to a one-year delay on repayments of $800m of debt and it is partly to repay those investors that the current issue of certificates of participation is being made.

The county sued Merrill Lynch, its investment bank, which has consistently denied any wrong-doing in its involvement, and KPMG Peat Marwick, its auditors, which is also contesting the County's allegations.

Early this year, Orange County threatened proceedings against a number of other Wall Street firms, while at the same time attempting to court investment bankers so it could raise money in the capital markets.

Officials from the authority have repeatedly met New York bankers, investors and ratings agencies in an attempt to convince them of the county's determination not to default on future bond issues. However, investors have remained angry and sceptical.

As well as insurance for the bonds, arranged with MBIA Insurance, a company which provides such cover for securities issues, the bonds will also be backed by revenues from sales taxes and motor vehicle registration fees dedicated to paying interest.

Tenneco and Arvin expect size to matter

By Haig Simonian, Motor Industry Correspondent

Tenneco Automotive and Arvin Industries, two of the world's leading car component makers, expect the number of significant parts suppliers to decline sharply as carmakers turn increasingly to parts companies that operate globally.

The two US companies also predicted, separately, that their sales and profits would grow faster than the rise in car demand on the back of rationalisation and the steady move to higher-value-added items in the components industry.

Mr Richard Snell, chief executive of Tenneco Automotive, forecast sales would rise to about $2.8bn this year from $2.5bn in 1995. He said operating income, which was $240m last year, would go up by an even greater proportion, as 1995 profits had been held back by a number of new product launches, which should bear fruit this year.

Mr James Baker, vice-chairman of Arvin, said sales were expected to reach $2.25bn this year compared with $1.8bn in 1995. Analysts expect the group's net profits, which were held back by an expensive legal settlement in 1995, almost to double this year, to $35m.

Tenneco Automotive and Arvin Industries are the world's leading makers of automotive exhaust and suspension systems. They control the world's best known brands for mufflers and shock absorbers, and in recent years consolidated their positions through acquisitions.

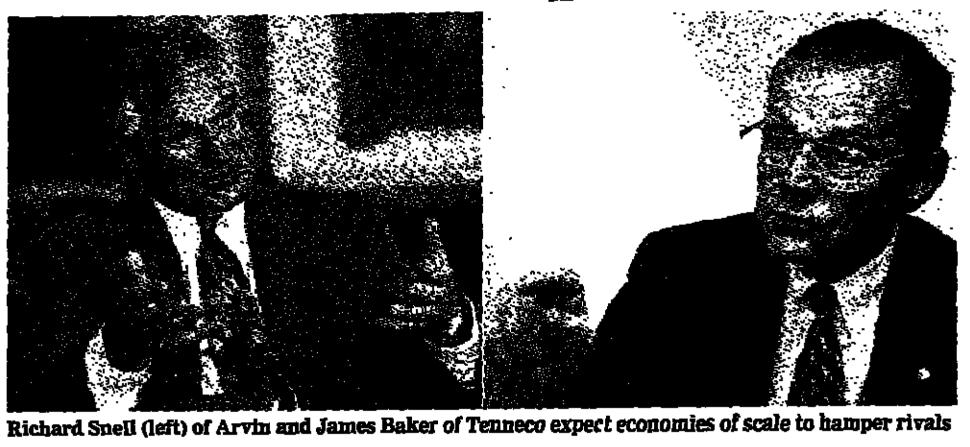
The two companies are excellent proxies for the world auto components business, in which the pace of mergers and acquisitions has been accelerating owing to economies of scale, and pressure from car companies for higher productivity and lower prices. "It would appear to be impossible for a third company, no matter what its resources, to establish itself in the shock or exhaust business today," Mr Baker said.

Both companies expect to generate their sales and earnings rises by expanding into parts of the world where car demand is growing. Growth will also come from the steady disappearence of competitors in more mature markets and from the trend towards outsourcing and more complex components in the motor industry.

Yet despite their similarities, the two companies differ sharply in their strategies. Mr Snell said Tenneco Automotive was still keen to fill out gaps in its geographic presence. The company was looking at acquisitions in Italy and in east and central Europe, where demand for cars was forecast to grow substantially, he said.

By contrast, Mr Baker said Arvin had almost completed a long investment phase aimed at developing its international presence.

Unlike Tenneco, Arvin was also satisfied with its current product range, and believed it could still extract significant sales and earnings increases through innovation, cost-cutting and sales development in its core businesses.



Richard Snell (left) of Arvin and James Baker of Tenneco expect economies of scale to hamper rivals

Microsoft unveils platform for Net operators

By Paul Taylor

Microsoft, the world's largest computer software company, has stepped up its push into the Internet market by announcing a new software technology platform, code-named 'Normandy', designed to be used by commercial online service operators.

CompuServe will become the first commercial online service supplier to license Normandy under a wide-ranging strategic alliance announced by Mr Bill Gates, Microsoft chairman and chief executive, and Mr Bob Massey, CompuServe's president and chief executive.

CompuServe and the other commercial online service suppliers – including Microsoft – were taken by surprise by the growth of interest in the Internet over the past 18 months. As a result they have been scrambling to convert their proprietary services to Internet open standards.

Meanwhile, Microsoft was forced to adapt the Microsoft Network, launched last year with Windows 95, to integrate more closely with the Internet.

Under the terms of the agreement CompuServe will use Microsoft's new software for its suite of online services which are being migrated from proprietary to open system technology.

"This strategic alliance between two long-standing industry leaders puts CompuServe in a position to rapidly implement our plans to strengthen our core business and expand our world-class services using Internet technologies," Mr Massey said. For Microsoft the deal is an important endorsement of the Normandy platform, which uses existing Microsoft products including Microsoft Windows NT Server, the software group's central corporate network product.

The disclosure of the Normandy platform, and other recent announcements, are seen by analysts as showing that Microsoft remains bent on providing the infrastructure for the emerging Internet industry.

Warehouse chain 'sold fake Calvin Klein jeans'

By Richard Tomkins in New York

Calvin Klein Jeanswear, the US company that makes Calvin Klein branded jeans, has accused Price/Costco, the US membership warehouse chain, of selling bogus jeans under the Calvin Klein trademark.

The jeans company said it had filed suit in the US district court in Newark, New Jersey, seeking an seeking an injunction to stop Price/Costco from the alleged activity. It was not seeking monetary damages, it said.

Calvin Klein Jeanswear, a subsidiary of the quoted Designer Holdings, is not part of the Calvin Klein fashion company, but makes Calvin Klein jeans under an exclusive licence covering the US and other territories.

It said a private investigation had revealed that Price/Costco was selling bogus goods as Calvin Klein merchandise in its warehouses. "As far as we know, it's still going on," the company said.

Calvin Klein is asking the Newark court to prohibit Price/Costco from selling any Calvin Klein trademarked jeans and jeans-related items. A hearing has been set for June 28.

Price/Costco has 250 warehouses in the US, Canada and the UK. They sell goods to the public at low prices, but access is reserved to those who pay a membership fee.

Price/Costco said it had not seen the suit filed by Calvin Klein Jeanswear and could not comment on it. Separately, it announced its results for the quarter ending May 12 showing that net profits had risen by 27 per cent to $41.2m.

Sales rose 11 per cent to $4.24bn, with part of the increase coming from new store openings. Sales at stores that had been open more than a year rose 5 per cent.

Price/Costco said expansion plans for the rest of its fiscal year ending September 1 included the opening of two or three new warehouses and the relocation of one or two existing warehouses to larger and better-located premises.

NEWS DIGEST

Whirlpool warns again on profits

Whirlpool, the US white goods manufacturer, has delivered the latest in a series of profits warnings based on poor trading in Europe. This time it has blamed the strength of the Italian lira, which it said could reduce budgeted operating profits in Europe by $50m for the full year. The company said Italy accounted for 50 per cent of its European manufacturing output. Of its Italian output, 80 per cent is exported.

Whirlpool said the lira's appreciation against other European currencies – particularly its 9 per cent rise against the D-Mark since December – had been more persistent and profound than expected. In addition, European demand continued weak, with industry shipments down 2 per cent by April. There had been a continued shift to lower-price products, and very intense price competition. Last year's operating profit in Europe was $92m, down from $163m the year before.

The company said that despite currency and other difficulties its European volume was higher than a year ago, and its market share increased.

In North America, its record profits in the first quarter had been followed by a strong performance in April and May. It still expected higher full year profits from Latin America.

Tony Jackson, New York

Anheuser to produce Kirin beers

Kirin brand beers are set to increase their penetration of the US market under a new joint venture agreement announced yesterday by Anheuser-Busch of the US and Kirin Brewery of Japan. From early next year, Anheuser-Busch – best known for its Budweiser beers – will start producing Kirin Lager, Kirin Ichiban and Kirin Light beers at its Los Angeles brewery. They will be sold to the US market through a sales and marketing joint venture called Kirin Brewery of America.

The joint venture, capitalised at $10m, will be 90 per cent owned by Kirin and 10 per cent owned by Anheuser. Operations will begin next January, gradually replacing the existing US marketing and selling arrangements for Kirin beers. As a result of the pact, Kirin will discontinue its current agreement with Molson Breweries of Canada by next March. At present, Molson produces Kirin beer for the US market.

Richard Tomkins, New York

Biochem Pharma sees first profit

BioChem Pharma, a leading Canadian biotech company and partner of Glaxo Wellcome in anti-Aids drugs, said 1996 would be its first profitable year. The group, operating in therapeutics, vaccines and diagnostics, would have revenues of more than C$200m (US$146m).

First quarter profit was C$1.5m, or 3 cents a share. Dr Francesco Bellini, president, said performance should improve in succeeding quarters as royalties from the sale of 3TC, used in combination therapy to treat and HIV, moved steadily higher. He also said sales of diagnostics products should improve.

In the first quarter 3TC royalties were C$7.5m and world sales – excluding Europe – reached US$42m. The drug has not yet been cleared in Europe. BioChem, valued by the market at more than C$3bn, expects 3TC to get final European approval by the end of the year.

Lamivudine, which is also being developed with Glaxo Wellcome and is aimed at hepatitis B, is undergoing phase three clinical trials and royalties could start coming in by 1998, Dr Bellini said. Among other BioChem drugs that are at the research or clinical trial stage, are a new influenza vaccine and a compound with the potential for treating meningitis B.

Robert Gibbens, Montreal

Reid backs Liam Strong against investors

By Ross Tieman and William Lewis

Sir Bob Reid, chairman of Sears, the retail group which owns Selfridges, last night said that he would not fire Mr Liam Strong, chief executive, despite mounting shareholder concern.

"Everybody wants to fire Liam Strong, according to the newspapers. I am certainly not going to fire him," Sir Bob said. He added: "He is an excellent executive."

Sir Bob's comments came as the receiver to Facia Group confirmed that 380 shoe shops sold by Sears were owned personally by Facia's chairman, Mr Stephen Hinchliffe, and not by Facia Group as had been thought.

KPMG, the accountancy firm, said that it was carrying out its receivership on the basis that the three companies which purchased from Sears the right to trade out of 380 shoe shops, including the Saxone and Curtess chains, were owned by Mr Hinchliffe, not the Facia Group.

The three companies are Facia Footwear, Cityscan and Wisebird, to which Price Waterhouse were appointed as administrators by the High Court earlier this week. When Sears sold the right to trade out of the shoe outlets last August and February it announced that they had been sold to Facia.

It is understood that at the time the contracts were drawn up for the sale of the shoe shops, Facia Ltd was named as a party to the deals.

A spokesman for Mr Hinchliffe said that the plan had been for ownership of the shoe shops to transfer to the Facia Group, which was partly owned by Murray Johnstone, the Glasgow-based investment manager, in August.

Following the transactions Sears continued to hold the leases of the properties and pay the rent. It was also contracted to carry out several management tasks, including the paying of staff, warehousing and supply of stock.

In return Sears has been receiving management and licence fees from the shoe shops.

Although Sears has now been obliged to take additional provisions of £25m in respect of the shoe shops it has sold, Sir Bob told the Financial Times yesterday that the decision to sell them was taken collectively by the Sears board. Responsibility did not rest with Mr Strong alone, he said.

Yesterday Sir Bob signalled his own confidence in the company's prospects by buying 25,000 shares at a cost of £23,875.

"This business is very much maligned," he said.

When Mr Strong was appointed to the post of chief executive in February 1992, he promised to restore within three years the fortunes of the Selfridges department store, Freemans mail order and British Shoe retailing business.

Racal to reshape division for £20m

By Christopher Price

A 21 per cent rise in profits at Racal Electronics yesterday was offset by an announcement that the data communications, telecoms and electronics group is to restructure its data products business at a cost of £20m ($30.4m).

The company, which is heavily indebted following the purchase of British Rail Telecommunications (BRT) for £133m in December, also signalled its intention to sell its marine and energy division and other non-core assets, a move likely to raise in excess of £200m.

The restructuring will involve the closure of the company's UK and Italian production facilities, affecting up to 400 jobs, although Racal would not disclose the exact number of compulsory redundancies.

Manufacturing of data products will be centred in Florida, while the number of lines is to be cut and new products developed to target high growth areas of the market. The business lost in the region of £18m last year and the restructuring is designed to return it to profit by next year.

Despite the provision – which Racal said would be recovered in savings over the next two years – and increased interest payments, Mr David Elsbury, chief executive, said the company would still beat last year's pre-tax profits of £70.4m (£58.3m) in the current year.

Turnover in the 12 months to March 31 rose 11 per cent to £1.01bn. Operating profits from continuing operations increased 27 per cent to £76.6m.

Profits at the data communications division rose 49 per cent to £21.4m, boosted by three months contribution from BRT, and a strong performance from Network Services and Camelot, operator of the National Lottery.

In the defence radar and avionics division, profits almost trebled to £19.8m on sales 56 per cent higher at £181.1m. However, sales in the radio communications business slipped 10 per cent to £161m, while profits fell 36 per cent to £12.9m. The company blamed "competitive trading conditions" and the need to increase R&D expenditure on the Bowman contract, a £1.5bn tender for UK army telecommunications equipment.

Marine and energy profits increased 25 per cent to £8.4m on turnover 7 per cent up at £122m.

Earnings per share rose 21 per cent to 16.54p. The final dividend of 3.9p makes 6p for the full year, an increase of 20 per cent. Gearing fell from 95 per cent after the BRT deal, to 75 per cent.

Pacific and Asia help Powerscreen rise 24%

By Tim Burt

Powerscreen International, which makes screening and stone crushing equipment, yesterday reported a 24 per cent increase in pre-tax profits following strong demand from landfill operators and increased sales in Asia and the Pacific Rim.

The Ulster-based group saw pre-tax profits rise from £29m ($44m) to £36m on increased sales of £261.3m (£196.8m) in the year to March 31, including turnover of £11.3m from acquisitions.

Most of the profits came from the screening division, which contributed £22.2m (£19.4m) at the operating line.

Mr Shay McKeown, chief executive, said government moves to encourage landfill owners to make better use of their sites had lifted demand for screening machines, which sort sand, aggregates and demolition waste for resale or disposal.

Growing sales in Asia also lifted profits in the crushing and recycling division, reporting gains of £5.13m (£4.72m) from continuing operations.

The sharpest increase in profits, however, came from the materials handling business, up from £4.71m to £8.95m. This followed a 15-year manufacturing contract with John Deere, the US mobile equipment group, worth up to £50m in the first 2½ years.

Full year working capital costs rose to £17.6m partly to cover production start-ups for the John Deere order, although Mr McKeown said spending had fallen in the second half.

Earnings per share rose from 25p to 30.5p. A final dividend of 6.7p lifts the total to 9.2p (8.1p).

United News mulls bid for Blenheim

By Geoff Dyer

United News & Media, the publishing, media, and financial services company, is considering making an offer for Blenheim Group, the exhibitions organiser.

A bid for Blenheim from United would be its first significant move since it merged with MAI Group in April to create a group with a market capitalisation of about £3.5bn ($5.3bn).

Shares in Blenheim, which is recovering from a torrid two years when it issued two profits warnings, jumped 70p to 409p after it announced it had received an approach, understood to be from United, which might lead to an offer.

The statement was prompted by the 27p rise in Blenheim shares on Tuesday. Shares in United, which refused to comment on the Blenheim announcement, fell 19p to 707p.

Analysts said if an offer was to be successful, it would almost certainly need to be on an agreed basis, as shares in Blenheim are very tightly held.

Directors of the group and their relatives control about 25 per cent of the ordinary shares and a further 15.4 per cent is in the hands of Compagnie Générale des Eaux, the French water utility, which has supported the present management.

The narrow shareholding meant a bidder would have to offer a generous premium, analysts said. Mr Anthony de Larranaga of brokers Panmure Gordon said a realistic offer would have to be at least 500p-550p per share, valuing the group at £465m-£510m.

United already has a large exhibitions and business magazines operation, which trades under the name of Miller Freeman and which was the group's fastest growing division last year, increasing operating profits by 30 per cent to £49.3m.

Analysts said a bid by United would have strategic logic because the group could expand Blenheim's profits through cost-cutting and by using its business magazines to support the exhibitions. They predicted that United could finance a bid without raising new equity.

Blenheim's 1995 results, which showed a 17 per cent rise in profits to £35.6m, helped to restore some of the credibility lost through a succession of profits warnings and broker downgrades in the previous two years.

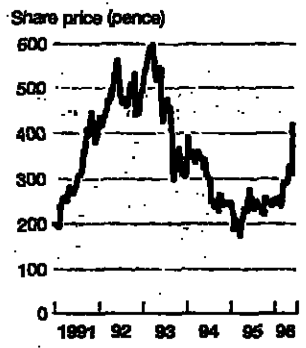
Analysts are forecasting that profits will rise to £45m-£50m in 1997.

The French business, which contributes 37 per cent of group revenues, has shown signs of recovery with profits rising to £14.3m (£9.8m) last year.

Analysts said that a bid for Blenheim could encourage other companies to enter the fray. Possible candidates include Emap, the media and exhibitions group, which has a number of business magazines closely related to some of Blenheim's larger exhibitions, and Reed International, the publishing and information group.

Foreign companies might also be interested, analysts predicted.

Blenheim Group



Source: FT Extel

Yorkshire Water moves to restore its reputation

By Jane Martinson

Yorkshire Water, the water services company, sought to restore its battered reputation yesterday, by emphasising its commitment to customer service and announcing a better-than-expected 14 per cent increase in pre-tax profits.

Mr Brandon Gough, chairman, and his team are anxious to stress that things can only get better. However, after two damning reports on service in the past month, it disappointed investors by announcing that the expected share buy-back was now not "appropriate".

Mr Brian Wilson, group finance director, said: "The focus as a new management team is to get customers' confidence back. Once this has been done we will certainly address the balance sheet structure."

Following criticism over its service failures from Ofwat, the industry regulator, two days ago, Yorkshire agreed not to increase prices above inflation, a move which will cost £40m in revenues over the next three years. It also agreed to spend an extra £50m on top of the £170m already announced to improve supply. Total capital expenditure will amount to more than £600m in the two years to March 1997.

The group said supplies would be maintained this summer, even in the event of weather conditions similar to last year.

A tankering operation to maintain supplies last year resulted in an exceptional charge of £47.2m. Pre-tax profits for the year to March 31 rose to £162m (£142m), partly as a result of operating efficiencies. The 1994 figure was hit by a £50m charge for restructuring and a customer dividend.

The news prompted Mr Frank Dobson, the Labour party's shadow environment secretary, to renew its pledge of a "tough regulation...and a windfall levy on scandalous profits". Group sales rose 5.5 per cent to £579.6m (£549.3m), while operating profits before exceptionals advanced 10 per cent to £220m (£200m).

A final dividend of 21.9p makes a total of 31p, up 12 per cent. The group said it expected to lift dividends by between 6 per cent and 8 per cent real until the end of the century.

Mr Wilson said that net debt of £167m – which gives gearing of 12 per cent – would rise to between 30 and 40 per cent because of the extra spending.

He said that permission for a share buy-back would be renewed at the July annual meeting.

The results of a strategic review into the group's non-core businesses is likely to be announced in the coming months.

Earnings per share rose 10 per cent to 72p (65.5p).

Trevor Humphries

Brandon Gough: keen to convince that things can only get better

Courtaulds Textiles replaces Noel Jervis

By Jenny Luesby

Courtaulds Textiles, the struggling textiles group, yesterday replaced Mr Noel Jervis as chief executive, in a bid to accelerate a painful disposal programme that will cut group sales by more than 10 per cent.

Mr Colin Dyer, who joined Courtaulds in 1982 from management consultants McKinsey, was yesterday appointed as chief executive with immediate effect.

Analysts reacted to the announcement with some shock.

"If a statement had appeared announcing Mr Jervis' retirement in two to three years time, it would not have come as a surprise," said one.

Mr Jervis took over as chief executive on the departure of Mr Martin Taylor to Barclays Bank at the beginning of 1994.

However, even once the disposals aim had been announced, Mr Jervis seemed to be tackling the disposal programme one business at a time, rather than in a grand sweep.

Mr Dyer said yesterday the disposal programme would be considerably accelerated. The group plans to get out of the spinning business. It would review its US operations.

RESULTS

		Turnover (£m)		Pre-tax profit (£m)		EPS (p)		Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Avesco	Yr to Mar 31	17.3	(19.3)	1.79	(8.97L)	18.8	(102.7L)	2.5	Oct 8	1	4	1
Caffyns	Yr to Mar 31	161	(157)	0.629	(0.676)	12.6	(14)	6.5	July 20	6.5	11.5	11.5
Freepages φ	6 mths to Mar 31	1.29	(1.31)	0.842L	(0.148L)	1.35L†	(0.47L)	-	-	-	-	-
Hambros	Yr to Mar 31	-	(-)	20.8♠	(37.1)	7.6L	(4)	5	Aug 19	3	7.5	7.5
Highbury House	Yr to Dec 31	11.96	(21.8)	3.02L	(5.13L)	17.7L†	(39.4L)	nil	-	nil	nil	nil
DMF Intl	Yr to Mar 31	45.4	(40.3)	14L♠	(4.2L♠)	19.4L	(8.6L)	nil	-	nil	nil	0.75
Powerscreen Intl	Yr to Mar 31	261.3	(196.8)	36	(29)	30.5	(25)	6.7	-	5.9	9.2	8.1
Racal Electronics	Yr to Mar 31	1,059	(950.2)	70.4♥	(58.3♥)	16.54	(13.7)	3.9	Aug 28	3.25	6	5
Shanks & McEwan	Yr to Mar 30	114.2	(138.1)	19.5	(14.5♠)	8.6	(4.2)	2.4	Aug 2	2.2	3.6	3.3
Staveley Inds	Yr to Mar 31	372.9	(342.2)	23.2	(20.2)	16.4	(13.6)	6.7	Aug 5	6.2	9	8.5
United Drug ♦	6 mths to Mar 31	119.5	(103.4)	2.72	(2.33)	10.09	(8.72)	2.8	July 26	2.55	-	8.1
Voss Net	Yr to Dec 31	0.257	(0.051)	0.597L	(0.148L)	-	(-)	-	-	-	-	-
Waddington (John)	Yr to Mar 30	298.8	(259.3)	11.9♠	(53.3♥)	7.45†	(40.28)	5.4	Aug 9	4.9	9.4	8.7
Yorkshire Water	Yr to Mar 31	579.6	(549.3)	162.2♠	(142♠)	72	(65.5)	21.9	Oct 1	19.3	31	27.6
Young & Co's	Yr to Mar 30	73.9	(72)	5.23	(5.31)	26.67	(27.1)	7.85	July 17	7.75	15.2	15

Investment Trusts		NAV (p)		Attributable Earnings (£m)		EPS (p)		Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Fairbairn European	6 mths to Apr 30	113.22	(101.19)	0.094	(0.015)	0.16	(0.03)	-	-	-	-	0.8
F&C Private Equity	Yr to Mar 31 ‡	90.9	(-)	0.186	(0.131)	0.66	(0.52)	0.5	July 29	0.4	0.5	0.4
Gartmore Shared	Yr to Apr 30	69.2	(71.1)	5.47	(3.73)	9.68	(9.81)	2.4	June 29	2.4	9.6	9.6¥
Northern Investors	Yr to Mar 31	404.8	(364.7)	0.345	(0.303)	9.2	(8.1)	5	July 26	4.5	7	6
New Zealand	6 mths to Apr 30	255.19	(229.91)	0.354	(0.26)	3.32	(2.59)	nil‡‡	-	1.25	-	3.5

Earnings shown basic. Dividends shown net. Figures in brackets are for corresponding period. φAim stock. ♠After exceptional charge. ♥After exceptional credit. †On increased capital. ‡Irish currency. ‡Comparatives for 54 weeks. ¥Excludes 0.8p special. ‡‡Trust now pays dividends annually.

COMMODITIES AND AGRICULTURE

MARKET REPORT

Copper prices plunge to two-year lows at LME

By Kenneth Gooding, Mining Correspondent

A Chinese puzzle, option related selling and a wave of bearish sentiment combined yesterday to send COPPER prices plunging to their lowest levels for two years on the London Metal Exchange.

Most other LME metals fell in sympathy, with only LEAD and ZINC remaining relatively stable. ALUMINIUM dropped briefly to a two-year low and NICKEL also fell sharply; but both rallied before the end of trading.

"One or two big players – US hedge funds – thought the copper market was ripe for shorting," said one analyst. "So they went for the soft underbelly. But there was no bloodbath."

He said the sharp fall in copper's price sent some option traders running for cover and they joined in the selling.

Copper for delivery in three months fell to US$2,245 a tonne in late trading last night, more than 6 per cent below Tuesday's closing price and 17 per cent below the 1996 peak, reached early in May, of $2,715.

Some traders suggested the price would continue down to $2,200 a tonne before it steadied.

Mr Larry Kaplan, analyst at the Flemings Global Mining Group, pointed out that the copper market was heading for a substantial supply surplus in the second half of this year. Also, recent interruptions to supply had been eliminated, so the only factor preventing a complete collapse in copper's price were rumours that China was to buy substantial tonnages. "But the Chinese won't push up prices against themselves. They will come in from time to time as bargain buyers."

According to Mr Peter Hollands, author of the Copper Briefing Service newsletter, the rumours suggested China would import 100,000 to 110,000 tonnes of copper, partly to build up its strategic stockpile. So far, however, LME stocks had not fallen in the way that might be expected if China was buying. "We truly don't know what to believe. If it does happen, prices could be in for another roller-coaster ride. But if over the next few weeks it becomes clear that it will not happen, prices will collapse."

The difficulties analysts face in trying to solve this Chinese puzzle are outlined by Mr Ted Arnold, metals specialist at the Merrill Lynch financial services group. "We concede that the Chinese are once again a wild card in the price equation," he writes in Merrill's Commodity Market Trends. "If they decide to buy for both current consumption and their strategic stockpile in the second half of this year, they should be able to buy at rather lower prices than at present. All they have to do is to wait and watch the surplus metal start to build up in LME warehouses.

"On the other hand, the Chinese may simply decide to play fun and games with the western market and hide their hand completely. The Chinese could, for example, remain totally withdrawn from the spot market as buyers for months and live off their strategic stockpile.

"Alternatively, they could decide to sell part of their stockpile to the west in the second half while also aggressively shorting the market. This could drive prices down sharply. Then the Chinese could buy back all the metal they wanted at much lower prices than would otherwise be the case, as well as making money on their short selling.

"The variables are many and the big Chinese trading houses can be as opportunistic as they like. Chinese metal purchases and sales are no longer monolithically controlled. There are a number of medium to small-sized players as well these days. All this suggests that the copper market is going to be much more volatile and unpredictable than we were previously expecting."

● The London precious metals complex bounced slightly in the afternoon following an overnight dive, but dealers said further losses were possible, reports Reuters.

"The trend is lower for now across the board. But everyone will be quite short right now, so trade could be quite choppy," a dealer said.

PLATINUM was trading at two-year lows and GOLD and SILVER were at five-month lows after chart-based long liquidation took the complex several notches lower in New York overnight. Platinum was fixed at $392.75 a troy ounce, down $6.75, while gold closed $3.15 down at $387.60 an ounce and silver 16 cents down at $5.20¾ an ounce.

India predicts tea prices will remain firm

Strong demand is expected to soak up record output, writes Kunal Bose

India, the world's largest producer of tea, expects that prices of the commodity will remain firm throughout the current year, in spite of record production. Producers, who took a beating at the auctions last year, have so far this season realised decent prices for tea grown in all parts of the country. Demand is particularly strong for orthodox tea, which is mostly exported.

According to Mr P.K. Sen, chairman of J. Thomas, the world's largest tea broking firm, "in spite of the unusually high production in November and December last year, the current season did not open with any significant stocks at the auction centres. All previous season tea had been sold out and we think the supply of the commodity will remain pretty tight till the year-end. Unlike last year, the market has moved in favour of the sellers. The producers will get a good premium for quality tea".

Last year's prices were a big disappointment to the Indian tea industry. However, the producers, who until the middle of 1995 thought that the production could be as low as 725m kg, heaved a sigh of relief when the season ended with an output of 754m kg, up from 744m in 1994.

'The market has moved in favour of the sellers. The producers will get a good premium for quality tea.'

"More than the breakthrough in production what gives us comfort was the turnaround in export in 1995," commented Mr S.S. Ahuja, chairman of India's Tea Board. "We fared very badly in 1994 when our tea export amounted to only 151m kg, the lowest since 1936. However, aided by a strong revival in demand for Indian tea in the Commonwealth of Independent States, our export last year rose to nearly 165m kg.

"Till 1991, India was exporting more than 200m kg of tea."

Mr Ahuja does not think that the "revival in production and export last year was a flash in the pan". The Tea Board has, therefore, fixed a production target of 785m kg for the current year. Industry officials do not consider the target unrealistic. In every tea growing centre in the country, particularly in Assam and West Bengal, the average yield per hectare falls far short of the productivity level of the efficiently managed gardens. For example, in Darrang district of Assam, the best garden has a productivity rate of 2,941 kg a hectare, against an average yield of 2,011 kg. The average productivity of the gardens in the hills of Darjeeling is only 532 kg a hectare, while there are a few estates growing nearly 1,150 kg.

According to Mr Tejendra Khanna, commerce secretary, because of the difficulty in getting additional land for tea cultivation "much of the increase in production in future will have to come by way of productivity improvement". The federal government wants the industry to raise the production of tea to 1bn kg by the turn of the century. But as Mr Ahuja pointed out, the 1bn kg production target provided only "48m kg to come from new plantation."

Mr Ahuja said that the Tea Board had asked the industry to chase an export target of 150m kg in the current year. The target looks achievable, especially with Russia and other CIS constituents buying large quantities. Indian exporters will be facing strong competition, however, from Sri Lanka, which has established itself very well in CIS in the past few years. While Sri Lanka is not too dependent on any single market, the CIS accounts for nearly 50 per cent of India's tea export.

As part of a new marketing strategy, the five leading members of ITA have formed a consortium called Project India Blend for selling value-added packet tea, containing blends of Assam orthodox, first in Russia and then in other CIS countries. Gelgate Trading of the UK will be marketing 1m kg of Assam orthodox tea in packets under Nargis brand name in the current year. Besides the CIS, which offers volume, the Indian industry should "concentrate on markets like the UK, Germany and Japan, which pay good prices for tea," according to Mr Ahuja.

India surrendered the top exporter's slot to Sri Lanka some years ago, and Kenya's exports overtook India's in 1993. "But more than export volume, we are looking at price realisation. After all, we have a big domestic market for tea, unlike Sri Lanka and Kenya," said Mr Ahuja.

Regulators sniffing around at US cheese exchange

Laurie Morse reports on an investigation into possible price manipulation on a little-known market

There is the smell of a rat at the National Cheese Exchange in Green Bay Wisconsin, where Federal regulators and State authorities are investigating possible price manipulation in the market that is used to price nearly $18bn in bulk cheese sales each year.

The little-known exchange has been operating a cash, or "spot" cheese market for nearly a century. Until recently it was mostly a residual market, a sideshow to the government dairy price supports that dictated milk and cheese prices. As the government exits the dairy support business, however, the exchange has become a much bigger cheese, and its relatively secret and unregulated operations have drawn the attention of government investigators.

A handful of exchange members meet once a week, on Friday morning, to set prices for 40,000lb loads of cheddar cheese. Often there are no trades, only indications of bids and offers, which are posted by hand on a blackboard. Sessions rarely last longer than a half hour.

Although inconsequential amounts of cheese are traded there, the market indications posted at the National Cheese Exchange provide the basis for prices paid to bulk cheese producers nationwide, and indirectly for milk pricing for most of the nation's dairy farmers.

Only a handful of companies trade at the exchange and for the past decade sales there have been dominated by consumer cheese marketing giants, particularly the Philip Morris Company' Kraft Foods subsidiary. These retailers have a special interest in bulk cheese pricing, and had traditionally been buyers at the exchange.

In the late 1980s, However, as the government's influence over dairy markets started to wane and market prices rose above government supports: "We began to see some bizarre trading patterns at the NCE," says Mr Willard Mueller, an Agricultural Economist at the University of Wisconsin. Traditional buyers, particularly Kraft, became heavy sellers as the cheese market was liberalised. Shortly afterwards bulk cheese producers, traditionally the exchange's sellers, turned buyers, presumably in an attempt to prop up national prices for their products, Mr Mueller suggests. His Food Systems Research Group, which specialises in studies of failed markets, was commissioned to sniff out problems at the cheese exchange by a Wisconsin state consumer protection agency and has just completed its four-year inquiry. Its conclusion is that Kraft, which accounted for 74 per cent of the sales on the exchange from 1988 to 1993, not only had the motivation and capacity for influencing prices at the exchange, "but occasionally did so", Mr Mueller says. (Kraft maintains it did not manipulate prices and says it found willing buyers for its offerings in normal trading at the exchange).

The study concludes that US dairy producers have lost about $1bn because of the alleged manipulation.

The University of Wisconsin findings have sparked a minor furor in Washington, where the US Department of Agriculture is looking at cheese trading as it tries to nudge the dairy industry further along the road to market pricing, and where the Commodity Futures Trading Commission is belatedly recognising its indirect responsibility to supervise the National Cheese Exchange.

The CFTC became the exchange's only direct regulator three years ago after New York's Coffee, Sugar and Cocoa Exchange launched a bulk cheese futures contract. The agency has powers to supervise cash markets that underly futures contracts. This link was hardly recognised by the CFTC, much less by the exchange, where Mr Richard Gould, the National Cheese Exchange President, has said he did not learn the CFTC was his regulator until he attended a congressional hearing on market manipulation in Washington last month. At that hearing acting CFTC chairman Mr John Tull told legislators that the CFTC was working with the Justice Department and the Federal Trade Commission to investigate market manipulation at the exchange.

The government has tried to get its teeth into cheese market complaints in the past, but has never been able to prove prices had been manipulated. The real solution to the problems at the NCE, researchers say, is to broaden the number of traders and improve market depth, or liquidity. This might be accomplished by listing the market on computer, something the exchange is considering.

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE

(Prices from Amalgamated Metal Trading)

■ ALUMINIUM, 99.7 PURITY ($ per tonne)

	Cash	3 mths
Close	1505.5-6.5	1542-3
Previous	1531.5-2.5	1568-7
High/low		1556/1531
AM Official	1509-10	1546-7
Kerb close		1534-5
Open int.	223,491	
Total daily turnover	79,460	

■ ALUMINIUM ALLOY ($ per tonne)

	Cash	3 mths
Close	1260-70	1302-5
Previous	1285-95	1320-30
High/low		1320/1300
AM Official	1270-80	1307-8
Kerb close		1295-305
Open int.	4,795	
Total daily turnover	985	

■ LEAD ($ per tonne)

	Cash	3 mths
Close	819-20	824-5
Previous	816-7	820-1
High/low	813	830/814
AM Official	815-6	820-1
Kerb close		829-30
Open int.	35,250	
Total daily turnover	8,656	

■ NICKEL ($ per tonne)

	Cash	3 mths
Close	7785-95	7900-05
Previous	7920-30	8035-40
High/low		7970/7880
AM Official	7840-45	7960-62
Kerb close		7940-50
Open int.	45,359	
Total daily turnover	16,885	

■ TIN ($ per tonne)

	Cash	3 mths
Close	6095-105	6135-40
Previous	6145-55	6180-85
High/low		6160/6110
AM Official	6110-20	6140-45
Kerb close		6115-25
Open int.	18,208	
Total daily turnover	4,639	

■ ZINC, special high grade ($ per tonne)

	Cash	3 mths
Close	1020.5-1.5	1046-7
Previous	1020-1	1046-7
High/low	1021	1048/1044
AM Official	1020.5-1.0	1045.5-6.0
Kerb close		1046-7
Open int.	73,758	
Total daily turnover	16,421	

■ COPPER, grade A ($ per tonne)

	Cash	3 mths
Close	2413-8	2319-21
Previous	2493-6	2402-3
High/low		2375/2245
AM Official	2415-20	2320-22
Kerb close		2247-9
Open int.	195,061	
Total daily turnover	100,613	

■ LME AM Official £/$ rate: 1.5443
LME Closing £/$ rate: 1.5525

Spot: 1.5479 3 mths: 1.5459 6 mths: 1.5448 9 mths: 1.5443

■ HIGH GRADE COPPER (COMEX)

	Sett price	Day's change	High	Low	Vol	Open int
Jun	105.70	-6.90	113.20	104.00	271	3,637
Jul	102.05	-8.65	111.25	101.80	4,620	15,215
Aug	100.55	-8.75	108.60	100.55	54	967
Sep	100.25	-7.85	108.10	100.00	546	6,546
Oct	99.80	-7.80	106.00	99.25	8	685
Nov	99.55	-6.85	104.00	100.25	1	589
Total					6,114	40,478

PRECIOUS METALS

■ LONDON BULLION MARKET

(Prices supplied by N M Rothschild)

Gold(Troy oz)	$ price	£ equiv	SFr equiv
Close	387.40-387.80		
Opening	388.00-388.40		
Morning fix	387.95	250.776	487.886
Afternoon fix	387.65	250.339	487.276
Day's High	388.10-388.50		
Day's Low	387.00-387.40		
Previous close	390.80-390.80		

Loco Ldn Mean Gold Lending Rates (Vs US$)

1 month	4.54	6 months	4.30
2 months	4.45	12 months	4.13
3 months	4.40		

Silver Fix	p/troy oz.	US cts equiv.
Spot	336.70	520.50
3 months	341.30	526.35
6 months	345.70	533.45
1 year	354.75	547.05

Gold Coins	$ price	£ equiv.
Krugerrand	386-389	249-251
Maple Leaf	398.30-400.80	-
New Sovereign	395-399	255-257

Precious Metals continued

■ GOLD COMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Jun	385.8	-1.7	387.8	385.7	1,365	1,312
Jul	387.2	-1.8	-	-	-	2
Aug	388.9	-1.9	391.0	388.8	50,251	83,365
Oct	391.8	-2.0	393.6	392.0	126	6,064
Dec	394.7	-2.1	397.2	394.3	3,500	37,109
Feb	397.5	-2.1	399.6	399.0	20	6,348
Total					55,862	183,895

■ PLATINUM NYMEX (50 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	394.7	-2.0	397.0	394.5	2,866	19,428
Oct	397.5	-2.2	400.0	397.0	530	5,257
Jan	400.5	-2.2	403.0	402.5	2	1,037
Apr	403.5	-2.2	406.0	405.0	9	1,574
Total					3,410	27,319

■ PALLADIUM NYMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Jun	129.10	-1.60	130.00	129.00	167	432
Sep	129.45	-1.60	130.50	129.10	406	7,122
Dec	130.55	-1.60	131.50	131.00	2	866
Total					595	8,526

■ SILVER COMEX (5,000 Troy oz.; Cents/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Jun	513.5	-3.0	-	-	2	4
Jul	515.5	-3.0	522.0	514.5	32,024	61,293
Aug	518.2	-3.0	-	-	-	-
Sep	520.9	-3.1	528.0	520.0	3,406	16,681
Dec	528.6	-3.2	535.5	528.0	637	10,870
Mar	536.8	-3.4	543.5	538.0	114	4,784
Total					36,968	103,265

ENERGY

■ CRUDE OIL NYMEX (1,000 barrels, $/barrel)

	Latest price	Day's change	High	Low	Vol	Open int
Jul	19.84	-0.60	20.52	19.75	34,840	79,366
Aug	19.14	-0.48	19.71	19.08	19,156	50,349
Sep	18.72	-0.40	19.15	18.68	7,573	35,620
Oct	18.40	-0.36	18.88	18.36	2,786	26,023
Nov	18.24	-0.30	18.40	18.10	1,465	21,856
Dec	18.07	-0.30	18.35	18.02	1,447	35,508
Total					70,788	383,098

■ CRUDE OIL IPE ($/barrel)

	Latest price	Day's change	High	Low	Vol	Open int
Jul	17.81	-0.64	18.38	17.80	16,259	50,318
Aug	17.45	-0.54	17.87	17.45	13,948	47,940
Sep	17.20	-0.40	17.59	17.20	2,321	16,205
Oct	17.03	-0.33	17.27	17.03	941	16,151
Nov	16.86	-0.32	17.09	16.86	326	4,980
Dec	16.71	-0.31	16.97	16.71	943	11,295
Total					38,520	173,297

■ HEATING OIL NYMEX (42,000 US galls.; c/US galls.)

	Latest price	Day's change	High	Low	Vol	Open int
Jul	51.00	-0.52	51.75	50.55	7,454	24,426
Aug	51.40	-0.54	52.20	51.05	3,850	15,095
Sep	51.70	-0.69	52.45	51.60	1,175	9,444
Oct	52.35	-0.59	53.10	52.20	218	5,196
Nov	52.80	-0.69	53.45	52.50	642	6,363
Dec	53.45	-0.59	53.80	53.30	776	17,177
Total					16,068	95,617

■ GAS OIL IPE ($/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Jun	161.25	-3.25	164.25	161.25	6,235	11,922
Jul	158.25	-2.00	161.25	159.00	6,974	15,855
Aug	158.25	-2.25	161.00	158.25	2,106	9,870
Sep	159.00	-2.00	161.00	159.00	380	5,428
Oct	159.50	-2.00	161.00	159.50	71	2,096
Nov	160.00	-1.50	160.75	160.75	5	1,518
Total					16,245	59,304

■ NATURAL GAS NYMEX (10,000 mmBtu.; $/mmBtu.)

	Latest price	Day's change	High	Low	Vol	Open int
Jul	2.377	+0.011	2.385	2.340	19,585	34,947
Aug	2.435	+0.020	2.440	2.395	5,323	22,270
Sep	2.407	+0.014	2.415	2.380	66	17,584
Oct	2.390	+0.017	2.390	2.360	1,481	14,408
Nov	2.400	+0.012	2.400	2.378	517	10,092
Dec	2.462	+0.002	2.465	2.445	707	11,884
Total					31,200	146,415

■ UNLEADED GASOLINE
NYMEX (42,000 US galls.; c/US galls.)

	Latest price	Day's change	High	Low	Vol	Open int
Jul	59.50	-1.19	61.10	59.10	14,625	25,426
Aug	58.60	-1.12	59.80	58.30	6,158	14,859
Sep	57.30	-0.92	57.90	57.10	1,068	5,274
Oct	55.00	-0.82	55.10	54.90	72	1,978
Nov	53.70	-0.57	53.70	53.70	157	1,173
Dec	52.30	-0.97	53.00	52.30	154	1,120
Total					22,240	52,092

GRAINS AND OIL SEEDS

■ WHEAT LCE (£ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	123.15	+0.90	124.00	121.00	232	1,327
Sep	111.50	+0.75	-	-	-	365
Nov	113.50	+1.10	113.75	112.25	215	2,881
Jan	115.45	+1.05	115.25	115.25	15	985
Mar	117.45	+1.05	117.40	117.25	20	230
May	119.45	+1.05	-	-	-	110
Total					na	na

■ WHEAT CBT (5,000bu min; cents/60lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	488.75	-12.25	501.00	486.00	21,886	41,514
Sep	493.25	-11.25	505.50	490.00	6,069	19,886
Dec	501.50	-11.25	512.75	498.00	6,775	19,893
Mar	500.00	-13.00	510.00	500.00	213	2,530
May	475.00	-	480.00	470.00	6	107
Jul	430.00	-3.00	435.00	428.00	80	1,571
Total					35,003	85,554

■ MAIZE CBT (5,000 bu min; cents/56lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	435.00	-12.25	449.00	429.25	45,118	114,077
Sep	373.25	-7.75	386.50	372.00	24,318	66,193
Dec	344.75	-	347.50	336.50	65,053	158,279
Mar	346.75	-4.25	353.50	345.00	1,874	19,887
May	350.50	-2.50	355.00	348.00	195	3,629
Jul	348.00	-3.75	355.00	347.00	192	4,025
Total					137,042	378,967

■ BARLEY LCE (£ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Sep	106.50	+1.25	-	-	-	68
Nov	107.90	+1.15	107.00	107.00	10	670
Jan	110.15	+1.15	109.50	109.50	6	133
Mar	112.00	+1.25	-	-	-	41
May	113.25	+1.25	-	-	-	6
Total					na	na

■ SOYABEANS CBT (5,000bu min; cents/60lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	765.50	-4.25	772.00	765.00	20,466	57,852
Aug	761.25	-4.00	768.00	760.25	3,031	14,692
Sep	740.75	-4.25	747.50	740.50	814	6,949
Nov	727.75	-5.75	735.50	727.00	27,376	81,636
Jan	734.50	-4.50	741.50	734.00	715	6,803
Mar	740.50	-4.50	747.00	740.00	228	3,084
Total					53,136	178,880

■ SOYABEAN OIL CBT (60,000lbs; cents/lb)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	25.64	-0.04	25.86	25.61	13,141	34,146
Aug	25.83	-0.03	26.05	25.82	3,893	14,185
Sep	26.02	-0.03	26.23	26.01	1,052	6,373
Oct	26.15	-0.02	26.40	26.15	1,123	5,648
Dec	26.48	+0.01	26.67	25.84	5,087	21,802
Jan	26.53	+0.01	26.73	26.53	46	1,827
Total					24,841	86,675

■ SOYABEAN MEAL CBT (100 tons; $/ton)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	238.6	-1.3	238.5	235.9	13,619	38,084
Aug	236.2	-0.9	237.8	235.5	4,161	12,851
Sep	233.7	-1.1	235.6	233.5	1,777	6,491
Oct	228.3	-1.4	230.5	228.0	1,247	4,180
Dec	227.4	-1.9	229.7	227.0	4,840	21,987
Jan	227.8	-1.7	230.0	227.8	13	2,056
Total					26,795	90,946

■ POTATOES LCE (£/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Nov	85.0	+2.5	-	-	-	-
Mar	110.0	-	-	-	-	-
Apr	138.5	+4.0	139.9	133.0	119	1,161
May	150.0	+5.0	-	-	-	3
Jun	162.5	-	-	-	-	-
Total					na	na

■ FREIGHT (BIFFEX) LCE ($10/index point)

	Sett price	Day's change	High	Low	Vol	Open int
Jun	1285	-5	1300	1285	7	598
Jul	1234	-16	1240	1230	22	2,064
Aug	1233	-25	1240	1240	1	75
Oct	1335	-17	1350	1335	9	1,359
Jan	1345	-13	1345	1345	4	138
Apr	1358	-17	-	-	-	83
Total					na	na

	Close	Prev
BFI	1338	1338

FUTURES DATA
All futures data supplied by CMS.

Nuts and Seeds
Prices from Kenkko Group; US$ a tonne. Iranian pistachios 28/30 raw (in shell) naturally opened (round); 1995 crop 3,300 CFR/FOT MEP, steady; 1995 crop expected at 100,000 tonnes. US almonds (shelled), tight availability for 1995 crop; New crop 27/30 standard at 5,650 FAS California, September/October shipment, steadier. US walnuts LHP 20%, prompt 6,100 FAS California, easy. Indian cashews raw: 1995 crop, W-320, 6,300 spot Europe – up slightly; 1996 crop from origin at 6,050 CFR India for second half of 1996. Turkish hazelnut kernels, 13/15 standard 1s, 1995 crop, 3,050 FOB MEP: new crop at 3,050 FOB MEP – steady but nervous. Turkish apricots No. 4, 1996 crop increasing daily, No. 1 sold out. Chinese pine nut kernels; up from 8,000 to 9,000, supplies very limited. Israeli sunflower seed – new crop 8mm+ estimate at 1,900 CFR.

SOFTS

■ COCOA LCE (£/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	1056	+1	1063	1052	3,626	15,165
Sep	1084	+6	1086	1076	2,970	45,634
Dec	1026	+9	1028	1017	641	31,425
Mar	1015	+8	1015	1009	1,317	37,102
May	1025	+6	1028	1021	87	19,991
Jul	1035	+7	-	-	-	11,560
Total					na	na

■ COCOA CSCE (10 tonnes; $/tonnes)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	1347	+5	1358	1340	5,176	20,639
Sep	1364	+3	1375	1360	1,516	20,465
Dec	1386	-1	1396	1386	368	17,051
Mar	1403	-2	1415	1403	233	13,947
May	1418	-2	1418	1418	48	6,697
Jul	1433	+5	1435	1435	26	5,673
Total					7,368	89,061

■ COCOA (ICCO) (SDR's/tonne)

Jun 4	Price	Prev. day
Daily	1033.91	1044.38

■ COFFEE LCE ($/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	1757	+10	1765	1750	1,284	15,021
Sep	1736	+14	1742	1725	903	7,713
Nov	1726	+15	1731	1718	197	3,478
Jan	1702	+16	1704	1698	102	1,761
Mar	1673	+14	-	-	-	1,027
May	1655	+25	1663	1663	2	-
Total					na	na

■ COFFEE 'C' CSCE (37,500lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	113.85	+0.45	114.80	113.40	5,848	13,476
Sep	113.10	+0.65	113.90	112.75	2,756	8,341
Dec	111.45	+0.75	112.70	111.35	1,067	3,737
Mar	110.50	+0.25	110.90	110.50	74	1,044
May	110.00	+0.75	110.00	110.00	4	323
Total					9,769	26,998

■ COFFEE (ICO) (US cents/pound)

Jun 4		Prev. day
Comp. daily	102.43	102.59
15 day average	107.93	108.58

■ WHITE SUGAR LCE ($/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Aug	376.1	-0.8	376.0	374.8	1,439	10,836
Oct	340.5	-0.4	340.3	338.6	145	8,566
Dec	331.4	-	331.1	330.6	46	4,008
Mar	327.8	-	327.7	326.8	66	3,841
May	326.9	-0.2	327.2	326.5	30	1,676
Aug	328.4	+1.0	328.6	328.2	20	611
Total					1,746	27,353

■ SUGAR '11' CSCE (112,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	11.35	-0.07	11.41	11.30	15,937	55,895
Oct	10.75	-	10.78	10.67	8,242	39,342
Mar	10.59	-0.01	10.61	10.54	3,326	30,569
May	10.53	-0.01	10.54	10.48	1,046	9,850
Jul	10.46	-0.01	10.47	10.45	672	8,755
Oct	10.40	-0.01	10.42	10.42	290	3,611
Total					29,635	148,498

■ COTTON NYCE (50,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	80.55	-0.84	81.70	80.15	9,092	21,618
Oct	79.15	-0.40	79.65	78.90	963	5,048
Dec	78.60	+0.09	78.70	78.25	4,019	28,411
Mar	79.47	+0.07	79.66	79.35	122	5,217
May	80.13	+0.10	80.00	79.99	144	2,182
Jul	80.60	+0.03	80.50	80.50	79	983
Total					14,637	65,866

■ ORANGE JUICE NYCE (15,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	122.90	+0.65	124.20	121.60	318	10,248
Sep	120.30	+0.05	121.90	119.85	135	4,879
Nov	117.05	-0.05	118.25	116.75	8	1,637
Jan	115.00	-0.60	116.00	115.00	54	3,831
Mar	116.50	-0.65	117.80	117.50	12	285
May	118.00	-0.75	118.75	118.75	6	153
Total					829	21,029

VOLUME DATA
Open interest and Volume data shown for contracts traded on COMEX, NYMEX, CBT, NYCE, CME, CSCE and IPE Crude Oil are one day in arrears. Volume & Open interest totals are for all traded months.

INDICES

■ REUTERS (Base: 18/9/31=100)

Jun 5	Jun 4	month ago	year ago
2095.2	2099.4	2129.3	2301.1

■ CRB Futures (Base: 1967=100)

Jun 4	Jun 3	month ago	year ago
	251.74	N/A	N/A

■ GSCI Spot (Base: 1970=100)

Jun 4	Jun 3	month ago	year ago
201.39	203.52	N/A	N/A

MEAT AND LIVESTOCK

■ LIVE CATTLE CME (40,000lbs; cents/lbs)

	Sett Price	Day's change	High	Low	Vol	Open int
Jun	62.200	-0.175	62.300	61.725	6,594	19,129
Aug	65.100	-0.050	65.150	64.700	7,355	33,436
Oct	66.250	-0.025	66.275	65.850	2,992	23,082
Dec	63.850	+0.125	63.900	63.600	1,788	11,539
Feb	63.125	+0.050	63.250	62.950	894	10,084
Apr	66.025	-0.075	66.150	65.925	244	2,989
Total					19,897	101,932

■ LIVE HOGS CME (40,000lbs; cents/lbs)

	Sett Price	Day's change	High	Low	Vol	Open int
Jun	63.350	+0.200	63.400	62.725	3,702	7,560
Jul	59.375	+0.025	59.800	58.875	3,322	8,854
Aug	55.875	+0.250	56.050	55.550	3,073	7,717
Oct	50.500	+0.050	50.750	50.225	732	5,711
Dec	53.300	+0.175	53.500	52.950	605	5,631
Feb	73.800	+0.025	74.150	73.650	125	1,299
Total					11,843	37,813

■ PORK BELLIES CME (40,000lbs; cents/lbs)

	Sett Price	Day's change	High	Low	Vol	Open int
Jul	83.775	+2.000	83.775	82.275	1,906	5,230
Aug	81.450	+2.000	81.450	80.000	870	2,592
Feb	77.225	+2.000	77.225	75.600	86	839
Mar	77.625	+1.775	77.625	-	3	46
May	78.750	+1.800	78.750	78.750	1	47
Total					2,866	8,854

LONDON TRADED OPTIONS

Strike price $ tonne	Calls		Puts	
■ ALUMINIUM (99.7%) LME	Jul	Sep	Jul	Sep
1450	75	125	8	25
1500	40	92	20	41
1550	17	64	47	63
■ COPPER (Grade A) LME	Jul	Sep	Jul	Sep
2150	155	132	20	83
2200	115	105	30	105
2250	65	83	47	131
■ COFFEE LCE	Jul	Sep	Jul	Sep
1300	457	448	-	12
1350	407	404	-	18
1400	357	362	-	26
■ COCOA LCE	Jul	Sep	Jul	Sep
875	181	167	-	3
900	156	146	-	5
925	131	126	-	8
■ BRENT CRUDE IPE	Jul	Aug	Jul	Aug
1800	23	-	14	-
1850	20	-	36	-
1900	7	12	105	-

LONDON SPOT MARKETS

■ CRUDE OIL FOB (per barrel)

		+or-
Dubai	$16.66-6.68x	-0.195
Brent Blend (dated)	$18.28-8.30	-0.18
Brent Blend (July)	$17.85-7.87	-0.25
W.T.I.	$19.70-9.72x	-0.44

■ OIL PRODUCTS NWE prompt delivery CIF (tonne)

Premium Gasoline	$201-205	-5
Gas Oil	$162-164	-4
Heavy Fuel Oil	$83-85	
Naphtha	$174-176	
Jet fuel	$185-187	-4
Diesel	$163-166	-2

■ NATURAL GAS (Pence/therm)

Bacton (Jun)	12.50-13.50

Petroleum Argus. Tel. London (0171) 359 8792

■ OTHER

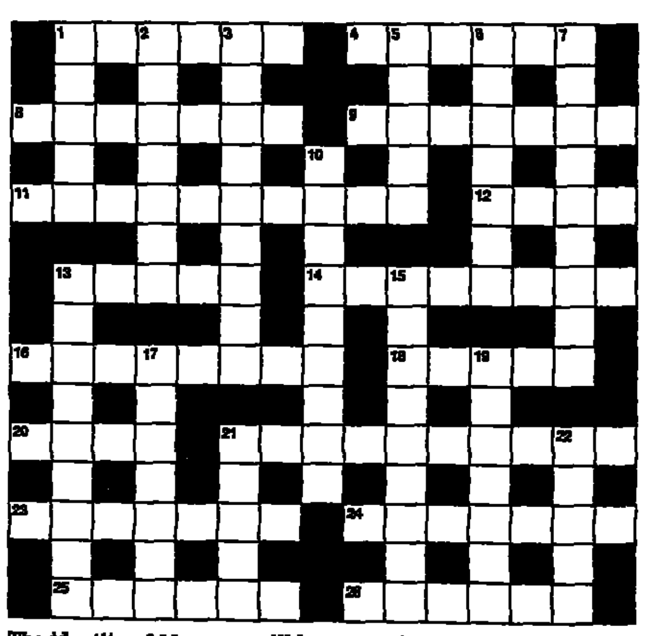
Gold (per troy oz)♣	$387.60	-3.15
Silver (per troy oz)♣	520.50c	-16.0
Platinum (per troy oz.)	$392.75	-6.75
Palladium (per troy oz.)	$127.75	-2.45
Copper	134.0c	
Lead (US prod.)	45.00c	
Tin (Kuala Lumpur)	15.46r	+0.05
Tin (New York)	286.50	-3.00
Cattle (live weight)	99.60p	•
Sheep (live weight)	146.87p	•
Pigs (live weight)†	115.29p	•
Lon. day sugar (raw)	$297.1	-1.2
Lon. day sugar (wte)	$394.5	-2.4
Barley (Eng. feed)	Unq	
Maize (US No3 Yellow)	Unq	
Wheat (US Dark North)	Unq	
Rubber (Jun)♥	102.75p	
Rubber (Jul)♥	102.75p	
Rubber (KL RSS No1)	374.00m	-3.5
Coconut Oil (Phil)§	815.0v	+10.0
Palm Oil (Malay.)§	$510.0	+2.5
Copra (Phil)§	$521.0	
Soyabeans (US)	218.0z	+3.0
Cotton Outlook'A' index	84.30c	
Wooltops (64s Super)	428p	

£ per tonne unless otherwise stated. p pence/kg. c cents/lb. r ringgit/kg. m Malaysian cents/kg. x Jul. v May/Jun. w Jun/Jul. ♥ London Physical. § CIF Rotterdam. ♣ Bullion market close. * Change on week. †Based on 444 head of pigs sold.

JOTTER PAD

CROSSWORD

No.9,087 Set by GRIFFIN



The identity of 11 across will become evident from several other clues

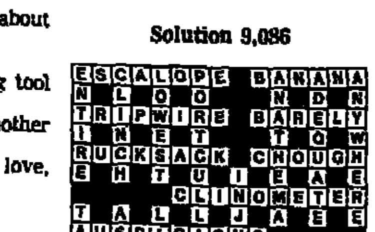
ACROSS

1, 4 Book by 11 is racy; also one I worked on (6,6)
8 Impersonating an 'Allo 'Allo girl, weep (7)
9 Undress bodies scattered round river (7)
11 ? (3,7)
12 Memorandum returned by 11's teacher (4)
13 Immature insect found in circular vase (5)
14, 21 across By 11 book suit (free, or Vera will go mad!) (8,3,7)
16 Take burden from one French theologian during auction (8)
18 Thanks salesman for returning lighter (5)
20 Still Cambridge water, about a pound (4)
21 See 14
23 Use lint when removing tool (7)
24, 26 I lent David Lee another book by 11 (4,3,3,3)
25 Film from here, with love, 11's hero (6)
26 See 24

DOWN

1 Tea at home in Ware (5)
2 Hesitate to say it after body gets harder! (7)
3 Tender sound made by nanny (9)
5 To be paid nothing to fly (5)
6 Say you will salute a top officer outside (5,2)
7 Bored emir unlikely to add fictitious details (9)
10 Former county centres bearing a cross (9)
13 11's middle name could be ancestral (9)
15 11, for example, is last one to get permit (9)
17 To have left in 14 across without Princess is nuts! (7)
19 Nurse follows padre, having no time to make believe (7)
21 Excuse first-class politician accepted (5)
22 11's Bond was one winner he didn't pick! (5)

Solution 9,086



US Treasuries flat ahead of employment data

By Lisa Bransten in New York, and Samer Iskandar and Philip Coggan in London

US Treasury prices were mostly flat in early trading yesterday as investors held their positions and waited for Friday's release of May jobs figures.

Near midday, the benchmark 30-year Treasury was off 1/32 at 87¼ to yield 6.999 per cent. The two-year note was unchanged at 99 25/32, yielding 6.237 per cent. The September 30-year Treasury bond future added 1/32 to 107 5/32.

The yield curve between the two-year note and the long bond steepened by another basis point to 76 basis points.

Currency trading did little yesterday to provide direction to the bond market as the dollar posted small gains against the Japanese yen and the D-Mark. In early trading, the US currency was changing hands for Y108.81 and DM1.5307 against Y108.75 and DM1.306 late on Tuesday.

Bonds did get some relief from falling commodity prices. The closely watched Knight Ridder/Commodity Research Bureau index fell 1.17 to 248.88.

In each of the past three months the bond market was jolted by stronger-than-expected employment figures, so traders were anxiously awaiting tomorrow's figures. Recent economic data have been mixed, leaving Wall Street economists divided about whether the Federal Reserve might raise interest rates in July.

■ The US Treasury could issue index-linked bonds as soon as this year, according to Ms Darcy Bradbury, assistant secretary (financial markets), who is in London on a roadshow to talk to institutional investors about the new securities.

Plans to issue the bonds were announced by Mr Robert Rubin, US Treasury secretary, last month. But the Treasury has yet to establish the maturity or structure of the bonds, or decide on which inflation index will be used; it is talking to investors in the US, Europe and Japan to seek their views.

One possible structure which has been mentioned by investors is for all the inflation proofing to be paid in the form of income every year, rather than have the capital value of the bond increase in line with the index. If such a bond had a face value of $1,000 and a real yield of 3 per cent, then in a year with 4 per cent inflation, it would pay $70 in income.

GOVERNMENT BONDS

Ms Bradbury said the timing of the first bond issue would depend on whether there was unanimity on the favoured structure among investors. A more varied response would mean that the Treasury would need more time to work out the optimal structure.

■ European markets fell yesterday in a quiet session dominated by the rolling of June futures contracts into September maturities.

German bonds ended lower, the 10-year benchmark bund losing 0.19 at 98.18. Liffe's September bund future settled at 95.51, down 0.20. News that German GDP had contracted 0.5 per cent in the first quarter, in line with expectations, had little effect on prices.

■ French bonds underperformed the German market. Matif's June notional future closed at 123.26, down 0.16. In the cash market, the 7¼ per cent OAT due 2006 closed at 105.16, down 0.25, its yield spread over the 10-year bund widening by 1 basis point to 2. Analysts are optimistic about the government's tax reform plans but warn not to expect immediate effects on the financial markets. The parliamentary debate will start at the end of the summer.

■ UK gilts ended slightly lower in moderate volumes. Liffe's September long gilt future settled at 106 1/32, down 1/32. In the cash market, the 7½ per cent gilt due 2006 closed at 96¾, down 1/32, its yield spread over bunds widening slightly to 171 basis points.

■ Among Europe's high yielding markets, only Sweden ended the session marginally higher, the 10-year benchmark bond closing at 85.59, up 0.06. Italian bonds closed with limited losses. Liffe's September BTP future settled at 115.29, down 0.37, while in the cash market the 10-year BTP lost ¼ at 100¾. The Italian 10-year yield spread over bunds remained stable at 312 basis points. Spanish bonds also showed a poor performance. The June bono future closed at 98.58, down 0.41.

■ Most analysts remain bearish on Japanese bonds. In this environment Mr Peter Wilson, Yen strategist at Tokyo Mitsubishi in London, is viewed by some as a contrarian when he refutes what he calls the "usual bear arguments". Concerning fears of over-supply of bonds, Mr Wilson's forecast of Y15,300bn of net issuance in the current fiscal year is well below last year's amount and the peak reached in 1994. Mr Wilson also disputes the widely-held belief that the rising equity market is attracting investors away from bonds. He believes recent equity purchases were mainly undertaken by foreign investors, while "domestic institutional investors are more likely to be taking profits on shares to invest more in bonds". Mr Wilson is also sceptical on rumours of imminent monetary policy tightening. Although some analysts expect the Bank of Japan to start raising interest rates soon after tomorrow's release of the Tankan report, Mr Wilson insisted that these expectations, measured by the implied rates on futures contracts, have declined recently. "Economic recovery will be slower than expected", he said.

Mr Wilson expects the JGB yield curve to continue steepening in the coming weeks, with the yield on the number 135 JGB due 2000 falling about 20 basis points. Liffe's September JGB future settled at 119.32, up 0.46. The benchmark 10-year JGB, number 182, closed at 99.17, up 0.28, to yield 3.11 per cent.

Hammerson issue approved by ABI

By Antonia Sharpe

A £100m convertible bond offering launched yesterday by Hammerson, the UK property company, appeared to show that the resolve among UK shareholders to defend their pre-emption rights was softening.

Hammerson's transaction comes at a time when pre-emption rights are under attack, in particular from the banking community, because they increase the cost to UK companies of raising equity financing and prevent them from expanding their investor base.

UK companies must offer any equity or equity-related securities to its shareholders first, but they are allowed to issue up to 5 per cent of issued share capital in the form of shares, or equity-related securities – such as convertible bonds – without pre-emption.

In the case of an acquisition, companies can finance it with shares or equity-related securities amounting to not more than 10 per cent of issued share capital, also without pre-emption.

Hammerson's convertible, which relates to 8 or 9 per cent of its issued share capital, was approved by the Association of British Insurers – which ensures that pre-emption rights are not violated – because the company said the proceeds would help finance its recent buying spree. Hammerson's main shareholders – Standard Life, PDFM and Hermes – are said to have followed suit, albeit grudgingly.

Some bankers said they were surprised that the three institutions did not put up a fight because in their view the proceeds were not funding a specific acquisition but were more likely to re-finance debt taken out to finance past acquisitions. "This offering is another chink in the disbandment of UK pre-emption rights," said one banker.

But Hammerson said there were sound commercial reasons for the offering and that it did not violate its shareholders' pre-emption rights.

Sterling offering from Toyota

By Conner Middelmann

Activity in the eurobond market slowed yesterday ahead of today's Corpus Christi holiday in Germany and tomorrow's release of US employment data and Japan's quarterly Tankan report.

However, the sterling sector saw more supply following the strong reception recent eurosterling issues have seen. "The market's got a very positive tone to it – we've been seeing demand flows continue to take recent issues down very quickly," said a dealer with a UK bank.

This encouraged Toyota Motor Credit Corp to issue £150m of three-year bonds priced to yield 10 basis points over gilts. While some traders deemed that spread to be tight, lead manager BZW said it compared well with other outstanding deals. Moreover, Toyota's rarity value in the sterling sector, which it last tapped in 1988, was likely to lend the issue support, he said. The spread remained unchanged, and BZW reported strong Swiss retail demand.

INTERNATIONAL BONDS

In dollars, General Electric Capital Corp issued $200m of two-year bonds priced tightly to yield 5 basis points less than US Treasuries. The spread widened to trade flat to Treasuries, but lead manager UBS was confident that the bonds would get placed among Swiss retail investors, with the spread set to tighten back.

Norway's Christiania Bank issued $150m of subordinated floating-rate step-up bonds callable after seven years. Lead manager SBC Warburg said it had substantial lead orders out of Asia, where most of the deal was placed. Many international investors remain reluctant to buy long-dated fixed-rate dollar securities, preferring to hold defensive floating-rate paper, a dealer said.

The eurolira sector saw its first-ever callable step-up bond, L250bn for Dresdner Bank, which saw such demand that it was increased from its initial L200bn issue size, J.P. Morgan, joint bookrunner with BNL and BCI, said.

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Coupon %	Price	Maturity	Fees %	Spread bp	Book-runner
US DOLLARS							
Providian Series 1996-1(a)‡	750	(a1)	(a1)	Jun 2003	-	-	Lehman Brothers
Cie Financière de CIC(b)‡	200	*(b1)*	99.965R	Jun 2002	0.20R	-	Sanwa International
GECC(s)	200	6.125	99.89R	Dec 1998	0.15R	-5(6%-98)	UBS
Christiania Bank(c)‡	150	(c1)	99.764R	Jun 2008	0.45R	-	SBC Warburg
Abbey Natl Treasury Services	75	(d)	99.69R	Jul 2000	0.225R	+21½(5⅞%-99)	Kredietbank Intl Group
D-MARKS							
CCDO(e)‡	100	(e1)	100.11	Apr 2000	0.20	-	DG Bank/Merrill Lynch Bank
YEN							
Spintab★	13bn	2.60	100.20	Jun 2001	0.25	-	Tokyo-Mitsubishi Bank
STERLING							
Toyota Motor Credit Corp(s)	150	7.25	99.814R	Dec 1999	0.1875R	+10(6%-99)	Barclays de Zoete Wedd
Hammerson(f)§	100	6.50#	100.00	Jun 2006	2.50	-	Goldman Sachs Intl
FRENCH FRANCS							
Saint Gobain Nederland	2bn	5.625	99.322R	Jul 2001	0.275R	+21(i)	CNCA/JP Morgan
LUXEMBOURG FRANCS							
GenFinance Luxembourg	3bn	(g)	102.50	Jul 2006	2.00	-	Banque Générale du Lux
ITALIAN LIRE							
Dresdner Bank(h)	250bn	(h1)	101.675	Jul 2001	1.875	-	BCI/BNL/JP Morgan
AUSTRALIAN DOLLARS							
BMW Australia Finance	100	9.00	101.85	Jul 2001	2.00	-	Deutsche Morgan Grenfell

Final terms, non-callable unless stated. Yield spread (over relevant govt bond) at launch supplied by lead manager. ‡ Floating-rate note. §Convertible. ★Unlisted. #Semi-annual coupon. R: fixed re-offer price; fees shown at re-offer level. a) Legal maturity: 15/8/07. a1) Priced later: 1-mth Libor +17-18bp area. b) Callable from June 2000 at par. b1) 3-mth Libor +12½bp. c) Callable from June 2003 at par. c1) 3-mth Libor +37½bp to June 2003, then +112½bp. d) 5% to 17/7/98, then 8½%. e) Fungible with DM250m. Callable in Apr 1998 at par. e1) 3-mth Libor +10bp. f) Conv price: 435.6p. Callable after 5 yrs at par. 15% cleanup call. g) 5½% to 10/7/01, then 7% to 10/7/03 and then 9%. h) Callable on 3/7/98 at par. h1) 8¾% to 3/7/98, then 9.20%. i) Over interpolated yield. s) Short 1st coupon.

Panamanian Brady bonds perform strongly

By Richard Lapper, Capital Markets Editor

Progress on debt rescheduling agreements helped the bonds and secondary market debt of Panama, Russia and Peru perform strongly last month, according to the J.P. Morgan Emerging Markets Bond Index Monitor (EMBI).

The total return delivered by Panamanian Brady bonds – trading on a "when issued" basis – increased by 12.1 per cent. Russian and Peruvian secondary market loans generated total returns of 7.4 per cent and 5.8 per cent, respectively, against a rise for the index of 1.73 per cent. Bulgarian Brady bonds also outperformed, rising by 5.4 per cent, largely as a result of indications that the country will be able to secure a package of international loans from the multilateral institutions.

Mexican Brady bonds were the worst performers, falling 1 per cent. But the report said "completion of Mexico's 30-year eurobond swap, along with speculation over the likelihood of similar deals for other Brady countries, lent a positive tone to the market".

The EMBI index has gained 31.3 per cent in the last 12 months.

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

		Coupon	Red Date	Price	Day's change	Yield	Week ago	Month ago
Australia		10.000	02/06	106.7160	-0.340	8.97	8.82	8.70
Austria		6.125	02/06	97.7700	-0.030	6.44	6.40	6.34
Belgium		7.000	05/06	101.9500	-0.120	6.72	6.66	6.58
Canada *		8.750	12/05	107.3000	-0.160	7.66	7.55	7.69
Denmark		8.000	03/06	0.0000	-	0.00	7.38	7.19
France	BTAN	5.750	03/01	100.7500	-0.120	5.56	5.48	5.49
	OAT	7.250	04/06	105.1600	-0.250	6.52	6.44	6.36
Germany Bund		6.250	04/06	98.1800	-0.190	6.50	6.42	6.33
Ireland		8.000	08/06	101.6500	-0.400	7.75	7.57	7.45
Italy		9.500	02/06	100.7500	-0.120	9.38†	9.26	9.58
Japan	No 140	6.600	06/01	120.0609	+0.289	2.17	2.30	2.50
	No 182	3.000	09/05	99.1725	+0.285	3.12	3.19	3.45
Netherlands		6.000	01/06	97.2200	-0.180	6.39	6.30	6.27
Portugal		11.875	02/05	116.6200	-0.360	9.02	8.83	8.84
Spain		8.800	04/06	97.2000	-0.440	9.22	9.02	9.05
Sweden		6.000	02/05	85.5858	+0.057	8.40	8.39	8.16
UK Gilts		8.000	12/00	102-08	-2/32	7.40	7.39	7.32
		7.500	12/06	96-04	-3/32	8.05	8.06	7.97
		9.000	10/08	106-16	-3/32	8.15	8.18	8.07
US Treasury *		6.875	05/06	100-04	-5/32	6.86	6.67	6.53
		6.000	02/26	87-15	-8/32	7.01	6.86	6.79
ECU (French Govt)		7.500	04/05	103.3000	-0.140	6.98	6.87	6.72

London closing, *New York mid-day. Yields: Local market standard.
† Gross (including withholding tax at 12.5 per cent payable by nonresidents)
Prices: US, UK in 32nds, others in decimal. Source: MMS International

US INTEREST RATES

Latest		Treasury Bills and Bond Yields			
Prime rate	8¼	One month	-	Two year	6.25
Broker loan rate	7	Two month	-	Three year	6.43
Fed.funds	5⅜	Three month	5.22	Five year	6.62
Fed.funds at intervention	-	Six month	5.41	10-year	6.85
		One year	5.76	30-year	7.00

BOND FUTURES AND OPTIONS

France

■ NOTIONAL FRENCH BOND FUTURES (MATIF) FF500,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Jun	123.44	123.26	-0.16	123.46	123.22	79,078	134,957
Sep	122.00	121.78	-0.16	122.00	121.78	13,745	47,039
Dec	120.78	120.52	-0.18	120.78	120.50	1,423	10,085

■ LONG TERM FRENCH BOND OPTIONS (MATIF)

Strike Price	Calls Jul	Calls Aug	Calls Sep	Calls Dec	Puts Jul	Puts Aug	Puts Sep
120	-	-	-	-	0.10	0.30	0.32
121	-	-	-	-	0.25	0.51	0.82
122	0.41	0.72	1.02	0.61	0.92	-	
123	0.10	0.32	-	-	-	-	
124	0.03	0.12	0.31	-	-	-	

Est. vol. total, Calls 6,401 Puts 10,300 . Previous day's open int., Calls 84,081 Puts 95,978 .

Germany

■ NOTIONAL GERMAN BUND FUTURES (LIFFE)* DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	95.58	95.51	-0.20	95.69	95.47	110253	171078
Dec	94.65	94.61	-0.18	94.72	94.62	195	900

■ BUND FUTURES OPTIONS (LIFFE) DM250,000 points of 100%

Strike Price	Calls Jul	Calls Aug	Calls Sep	Calls Dec	Puts Jul	Puts Aug	Puts Sep	Puts Dec
9550	0.44	0.78	0.98	0.96	0.43	0.77	0.97	1.85
9600	0.21	0.54	0.73	0.76	0.70	1.03	1.22	2.15
9650	0.09	0.35	0.53	0.60	1.08	1.34	1.52	2.49

Est. vol. total, Calls 7473 Puts 15498. Previous day's open int., Calls 117134 Puts 123924

Italy

■ NOTIONAL ITALIAN GOVT. BOND (BTP) FUTURES (LIFFE)* Lira 200m 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Sep	115.60	115.29	-0.37	115.81	115.23	38751	52441
Dec		114.89	-0.37			0	0

■ ITALIAN GOVT. BOND (BTP) FUTURES OPTIONS (LIFFE) Lira200m 100ths of 100%

Strike Price	Calls Sep	Calls Dec	Puts Sep	Puts Dec
11500	1.80	2.36	1.51	2.67
11550	1.55	2.13	1.76	2.94
11600	1.33	1.92	2.04	3.23

Est. vol. total, Calls 1057 Puts 1867. Previous day's open int., Calls 43317 Puts 34418

Spain

■ NOTIONAL SPANISH BOND FUTURES (MEFF)

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Jun	98.95	98.58	-0.41	98.97	98.46	95,905	54,395
Sep	98.34	97.99	-0.36	98.34	97.92	2,573	6,910

UK

■ NOTIONAL UK GILT FUTURES (LIFFE)* £50,000 32nds of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	108-16	108-10	-0-06	108-16	108-09	11705	40262
Sep	106-13	106-08	-0-06	106-17	106-08	30847	98660

■ LONG GILT FUTURES OPTIONS (LIFFE) £50,000 64ths of 100%

Strike Price	Calls Jul	Calls Aug	Calls Sep	Calls Dec	Puts Jul	Puts Aug	Puts Sep	Puts Dec
105	0-51	1-17	1-35	1-53	0-33	0-63	1-17	2-35
106	0-22	0-53	1-05	1-27	1-04	1-35	1-51	3-09
107	0-07	0-31	0-44	1-06	1-53	2-13	2-26	3-52

Est. vol. total, Calls 901 Puts 270. Previous day's open int., Calls 15758 Puts 19215

Ecu

■ ECU BOND FUTURES (MATIF) ECU100,000

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	90.92	90.82	-0.10	90.92	90.78	598	4,662
Sep	90.40	90.40	-0.10	90.40	90.36	190	3,836

US

■ US TREASURY BOND FUTURES (CBT) $100,000 32nds of 100%

	Open	Latest	Change	High	Low	Est. vol.	Open int.
Jun	108-04	108-07	-0-04	108-28	107-28	17,825	137,875
Sep	107-17	107-20	+0-03	107-23	107-10	211,338	266,006
Dec	106-31	107-02	+0-02	107-05	106-27	61	8,673

Japan

■ NOTIONAL LONG TERM JAPANESE GOVT. BOND FUTURES (LIFFE) Y100m 100ths of 100%

	Open	Close	Change	High	Low	Est. vol.	Open int.
Jun	120.43			120.44	120.35	1065	0
Sep	119.35			119.35	119.25	2705	0

* LIFFE futures also traded on APT. All Open interest figs. are for previous day.

FT-ACTUARIES FIXED INTEREST INDICES

Price Indices UK Gilts	Wed Jun 5	Day's change %	Tue Jun 4	Accrued interest	xd adj. ytd		Low coupon yield Jun 5	Low Jun 4	Low Yr. ago	Medium coupon yield Jun 5	Medium Jun 4	Medium Yr. ago	High coupon yield Jun 5	High Jun 4	High Yr. ago
1 Up to 5 years (22)	121.32	0.02	121.29	2.22	4.26	5 yrs	7.50	7.49	7.50	7.64	7.59	7.52	7.64	7.63	7.57
2 5-15 years (19)	144.46	-0.07	144.56	1.58	5.64	15 yrs	8.22	8.20	7.83	8.23	8.21	7.83	8.31	8.29	7.97
3 Over 15 years (9)	159.44	-0.22	159.79	2.41	5.65	20 yrs	8.29	8.28	7.83	8.29	8.27	7.85	8.35	8.33	7.95
4 Irredeemables (6)	181.37	-0.07	181.51	1.42	6.12	Irred.†	8.31	8.31	7.86						
5 All stocks (56)	140.42	-0.07	140.52	2.02	5.16										

Index-linked							Inflation 5% Jun 5	Jun 4	Yr. ago	Inflation 10% Jun 5	Jun 4	Yr. ago
6 Up to 5 years (1)	196.67	0.05	196.57	0.98	4.43	Up to 5 yrs	2.88	2.90	3.03	1.45	1.47	1.52
7 Over 5 years (11)	188.08	0.02	188.04	1.38	1.81	Over 5 yrs	3.83	3.83	3.54	3.63	3.63	3.35
8 All stocks (12)	188.19	0.02	188.15	1.37	1.86							

Average gross redemption yields are shown above. Coupon Bands: Low: 0%-7¾%; Medium: 8%-10¾%; High: 11% and over. † Flat yield. ytd Year to date.

FT FIXED INTEREST INDICES

	Jun 5	Jun 4	Jun 3	May 31	May 30	Yr ago	High*	Low*
Govt. Secs. (UK)	92.30	92.40	92.02	92.07	91.74	95.00	96.34	91.58
Fixed Interest	111.82	111.75	111.55	111.60	111.60	114.66	115.23	110.74

* for 1996. Government Securities high since compilation: 127.4 (09/01/35), low 49.18 (03/01/75). Fixed Interest high since compilation: 133.87 (21/01/94), low 50.53 (03/01/75). Basis 100: Government Securities 15/10/26 and Fixed Interest 1928. SE activity indices rebased 1974

GILT EDGED ACTIVITY INDICES

	Jun 4	Jun 3	May 31	May 30	May 29
Gilt Edged bargains	79.2	77.1	81.0	99.0	125.4
5-day average	92.3	91.7	93.8	94.9	93.6

UK GILTS PRICES

[illegible]

Other Fixed Interest

[illegible]

FT/ISMA INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market. Latest prices at 7:05 pm on June 5

[illegible]

CURRENCIES AND MONEY

MARKETS REPORT

Exchanges quiet as markets wait for key reports

By Philip Gawith

Foreign exchanges had a quiet day yesterday with traders and investors content to wait on the sidelines ahead of the release tomorrow of the May payrolls report in the US, and the May Tankan survey in Japan.

There was little price movement, with dollar/D-Mark confined to a narrow 60 basis point trading range in Europe. In the absence of any substantive issues to trade off, markets were dominated by renewed discussion of the extent to which political or business considerations might influence the dollar/yen rate.

The dollar finished in London at DM1.5293 from DM1.5318. Against the yen it closed at Y108.845, from Y109.025.

In Europe the main movement came from the Spanish peseta which continued its recent retreat, closing at Pta84.67 against the D-Mark from Pta84.33. The Swedish krona also slipped further, finishing at SKr4.396, from SKr4.372.

Sterling's rally over the past week paused to draw breath, with the trade weighted index finishing slightly lower at 86.4 from 86.5. Against the D-Mark the pound closed at DM2.3675, from DM2.3741, while against the dollar it finished at $1.5482, from $1.5499.

■ The discussion about the dollar/yen rate has been fuelled by comments from people on the margins of power. They include Mr Fred Bergsten, the US economist with close ties to the Clinton administration, and Mr Paul Volcker, former chairman of the US Federal Reserve.

■ Pound in New York

Jun 5	—Latest—	— Prev. close —
£ spot	1.5475	1.5490
1 mth	1.5467	1.5583
3 mth	1.5455	1.5470
1 yr	1.5430	1.5447

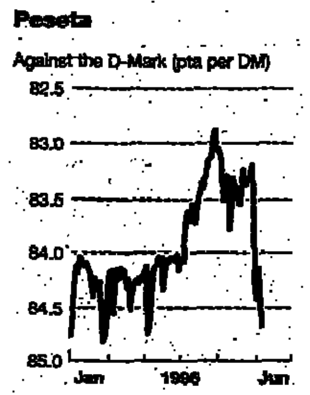
Mr Volcker said on Tuesday that the US would become concerned if the dollar rose above Y110, and might take steps to check its advance. This view gained support from the chief economist of Ford motor corporation, Mr Martin Zimmerman, who said the strength of the dollar would harm exports. This view was followed by news that Chrysler had made representations to the White House that if the dollar got too strong, it would put the company at "quite a substantial disadvantage."

This line of reasoning was disputed, however, by Mr Eisuke Sakakibara, the Japanese ministry of finance official, who said: "I think the people who are in office now have a slightly different idea." Questioned about a target zone for the dollar, he said: "Neither we, the United States nor Germany have an idea of target zone."

Mr Malcolm Barr, economist at Chase, said it needed to be remembered that much of the discussion was being conducted by people "on the peripheries of officialdom". As for the motor companies, "this is fairly predictable stuff. They are at the forefront of the bleeding hearts when the dollar does rally."

Peseta

Against the D-Mark (pta per DM)



Source: FT Extel

Perhaps relevant is that Ford's sales rose only 3 per cent last month, from a year previously, compared to a 17 per cent rise at Chrysler, and 7 per cent at GM.

Mr Barr said it was very difficult to argue that the US authorities would be particularly upset if the dollar went through Y110. A 5-10 per cent move either way should not bother the two countries. He said it was doubtful whether holding the dollar below Y110 was "a flame worth the candle in the long term." The main caveat is that if the exchange rate becomes an election issue, political dynamics could change attitudes.

■ Comments today from Mr Heikensten, deputy governor of the Swedish Riksbank, suggested that it was unlikely Sweden would make an effort to rejoin the European exchange rate mechanism before the end of the year. He stressed that the economy and exchange rate would need to be stable for some time before ERM entry could be considered. Analysts said his observation that the krona was now approaching its correct level suggested that the central rate might be around SKr4.35 when it does join.

The crown retreated from a 40 month low against the D-Mark following these comments, and warnings from the S&P credit rating agency that high unemployment and stagnant growth might force it to downgrade Swedish debt.

Elsewhere in Europe the $3.13bn rise in the Bank of Spain's foreign exchange reserves attracted some content. The rise was interpreted by some as confirmation that the Spanish authorities have been trying to reverse the rally in the peseta.

POUND SPOT FORWARD AGAINST THE POUND

Jun 5		Closing mid-point	Change on day	Bid/offer spread	Day's Mid high	low	One month Rate	%PA	Three months Rate	%PA	One year Rate	%PA	Bank of Eng. Index
Europe													
Austria	(Sch)	16.6605	-0.0459	534 - 676	16.7118	16.6411	16.6282	2.3	16.5542	2.6	-	-	104.6
Belgium	(BFr)	48.6816	-0.11	628 - 003	48.8110	48.6400	48.5786	2.6	48.3686	2.6	47.3486	2.7	106.5
Denmark	(DKr)	9.1411	-0.0232	367 - 454	9.1679	9.1333	9.1257	2.0	9.0929	2.1	8.9496	2.1	107.1
Finland	(FM)	7.2585	-0.0114	530 - 640	7.3090	7.2110	7.2541	0.7	7.246	0.7	-	-	83.3
France	(FFr)	8.0246	-0.0131	222 - 270	8.0412	8.0090	8.0105	2.1	7.9825	2.1	7.8497	2.2	108.8
Germany	(DM)	2.3675	-0.0068	666 - 684	2.3757	2.3649	2.3626	2.5	2.3521	2.6	2.3018	2.8	108.2
Greece	(Dr)	373.816	-0.372	654 - 978	374.530	373.089	-	-	-	-	-	-	67.5
Ireland	(I£)	0.9768	-0.0004	760 - 776	0.9787	0.9760	0.976	1.0	0.9747	0.9	0.9679	0.9	99.3
Italy	(L)	2392.81	-2.35	163 - 398	2395.99	2385.02	2401.06	-4.1	2418.16	-3.9	2468.86	-3.2	76.5
Luxembourg	(LFr)	48.6816	-0.11	628 - 003	48.8110	48.6400	48.5786	2.6	48.3686	2.6	47.4486	2.5	106.5
Netherlands	(Fl)	2.6493	-0.0063	483 - 503	2.6588	2.6474	2.643	2.9	2.6303	2.9	2.5711	3.0	106.7
Norway	(NKr)	10.1211	-0.0217	130 - 292	10.1496	10.0625	10.1121	1.1	10.093	1.1	9.9973	1.2	98.8
Portugal	(Es)	244.221	-0.384	088 - 353	245.068	242.924	244.646	-2.1	245.551	-2.2	-	-	94.4
Spain	(Pta)	200.455	+0.3	363 - 546	200.720	199.736	200.765	-1.9	201.26	-1.6	202.915	-1.2	80.0
Sweden	(SKr)	10.4112	+0.0326	011 - 213	10.4259	10.3498	10.4124	-0.1	10.414	-0.1	10.4163	0.0	89.5
Switzerland	(SFr)	1.9431	-0.0052	420 - 441	1.9527	1.9418	1.9369	3.8	1.9241	3.9	1.8684	3.9	110.9
UK	(£)	-	-	-	-	-	-	-	-	-	-	-	86.4
Ecu	-	1.2512	-0.0031	505 - 518	1.2554	1.2497	1.2498	1.2	1.247	1.4	1.2336	1.4	-
SDR†	-	1.07449	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	1.5471	-0.0017	458 - 483	1.5538	1.5431	-	-	-	-	-	-	-
Brazil	(R$)	1.5456	-0.0016	450 - 462	1.5507	1.5405	-	-	-	-	-	-	-
Canada	(C$)	2.1157	-0.0054	148 - 165	2.1270	2.1137	2.115	0.4	2.1113	0.8	2.1033	0.6	84.4
Mexico	(New Peso)	11.5446	+0.0323	265 - 626	11.5649	11.5053	-	-	-	-	-	-	-
USA	($)	1.5482	-0.0017	478 - 485	1.5540	1.5433	1.5474	0.6	1.5461	0.5	1.544	0.3	97.2
Pacific/Middle East/Africa													
Australia	(A$)	1.9507	+0.0113	498 - 517	1.9568	1.9421	1.9533	-1.6	1.9583	-1.6	1.9836	-1.7	94.0
Hong Kong	(HK$)	11.9761	-0.0131	746 - 815	12.0219	11.9408	11.97	0.6	11.9584	0.7	11.9386	0.3	-
India	(Rs)	53.9531	-0.1368	313 - 749	54.2850	53.8210	-	-	-	-	-	-	-
Israel	(Shk)	5.0736	-0.0047	690 - 785	5.0878	5.0521	-	-	-	-	-	-	-
Japan	(Y)	168.508	-0.454	416 - 601	169.170	167.880	167.783	5.2	166.293	5.3	159.878	5.1	134.6
Malaysia	(M$)	3.8670	-0.0128	653 - 686	3.8845	3.8572	-	-	-	-	-	-	-
New Zealand	(NZ$)	2.2876	+0.0062	859 - 893	2.2930	2.2795	2.2926	-2.6	2.302	-2.5	2.3359	-2.1	106.5
Philippines	(Peso)	40.5306	-0.0445	595 - 017	40.6210	40.4580	-	-	-	-	-	-	-
Saudi Arabia	(SR)	5.8064	-0.0062	049 - 078	5.8260	5.7889	-	-	-	-	-	-	-
Singapore	(S$)	2.1822	-0.0008	809 - 834	2.1993	2.1773	-	-	-	-	-	-	-
South Africa	(R)	6.7662	-0.0144	608 - 716	6.7910	6.7536	-	-	-	-	-	-	-
South Korea	(Won)	1218.32	-0.71	796 - 867	1223.67	1214.58	-	-	-	-	-	-	-
Taiwan	(T$)	42.9914	-0.0263	669 - 158	43.2167	42.8713	-	-	-	-	-	-	-
Thailand	(Bt)	39.2457	-0.0275	213 - 700	39.3850	39.1230	-	-	-	-	-	-	-

† Rates for Jun 4. Bid/offer spreads in the Pound Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. Sterling index calculated by the Bank of England. Base average 1990 = 100. Index rebased 1/2/95. Bid, Offer and Mid-rates in both this and the Dollar Spot tables derived from THE WM/REUTERS CLOSING SPOT RATES. Some values are rounded by the F.T.

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Jun 5		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	low	One month Rate	%PA	Three months Rate	%PA	One year Rate	%PA	J.P. Morgan index
Europe													
Austria	(Sch)	10.7816	-0.0178	594 - 637	10.7860	10.7490	10.7421	2.2	10.7001	2.3	10.5166	2.3	104.6
Belgium	(BFr)	31.4450	-0.0385	400 - 500	31.5250	31.3890	31.39	2.1	31.275	2.2	30.735	2.3	106.2
Denmark	(DKr)	5.9045	-0.0085	030 - 060	5.9185	5.8875	5.897	1.5	5.88	1.7	5.811	1.6	108.3
Finland	(FM)	4.6885	-0.0022	860 - 910	4.7105	4.6572	4.682	1.7	4.67	1.6	4.6245	1.4	82.7
France	(FFr)	5.1834	-0.0027	803 - 837	5.1990	5.1735	5.1764	1.6	5.1622	1.6	5.0944	1.7	108.3
Germany	(DM)	1.5293	-0.0025	290 - 295	1.5335	1.5272	1.5268	2.0	1.5211	2.2	1.4828	2.4	107.4
Greece	(Dr)	241.460	+0.025	410 - 510	241.880	240.600	243.135	-8.3	246.485	-8.3	260.46	-7.9	67.0
Ireland	(I£)	1.5850	-0.0011	840 - 860	1.5895	1.5797	1.5856	-0.4	1.5864	-0.4	1.5779	0.4	-
Italy	(L)	1545.59	+0.17	518 - 600	1550.00	1540.36	1551.84	-4.7	1563.19	-4.6	1604.09	-3.8	76.2
Luxembourg	(LFr)	31.4450	-0.0385	400 - 500	31.5250	31.3890	31.392	2.0	31.2865	2.0	30.805	2.0	106.2
Netherlands	(Fl)	1.7113	-0.0034	110 - 115	1.7163	1.7100	1.708	2.3	1.7008	2.4	1.6691	2.5	106.1
Norway	(NKr)	6.5376	-0.0068	338 - 413	6.5528	6.4978	6.5347	0.5	6.5281	0.5	6.4926	0.7	97.7
Portugal	(Es)	157.750	-0.075	700 - 800	158.110	157.090	158.065	-2.4	158.695	-2.4	160.8	-1.9	94.4
Spain	(Pta)	129.480	+0.335	460 - 510	129.750	128.870	129.73	-2.3	130.16	-2.1	131.7	-1.7	78.8
Sweden	(SKr)	6.7249	+0.0284	199 - 299	6.7485	6.6781	6.7359	-2.0	6.7534	-1.7	6.7954	-1.0	89.3
Switzerland	(SFr)	1.2551	-0.002	547 - 555	1.2589	1.2540	1.2518	3.4	1.2441	3.5	1.2107	3.5	110.4
UK	(£)	1.5482	-0.0017	478 - 485	1.5540	1.5433	1.5474	0.6	1.5461	0.5	1.544	0.3	86.1
Ecu	-	1.2374	+0.0016	370 - 377	1.2385	1.2344	1.2382	-0.7	1.2398	-0.5	1.2487	-0.9	-
SDR†	-	0.69277	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	0.9993	-	987 - 999	0.9999	0.9986	-	-	-	-	-	-	-
Brazil	(R$)	0.9984	+0.0001	982 - 985	0.9985	0.9980	-	-	-	-	-	-	-
Canada	(C$)	1.3666	-0.002	663 - 668	1.3695	1.3660	1.3664	0.1	1.3667	0.0	1.3695	-0.2	83.6
Mexico	(New Peso)	7.4570	+0.029	470 - 670	7.4570	7.4470	7.8185	-28.0	7.8035	-18.8	8.567	-28.3	-
USA	($)	-	-	-	-	-	-	-	-	-	-	-	96.2
Pacific/Middle East/Africa													
Australia	(A$)	1.2589	+0.0086	598 - 604	1.2604	1.2568	1.2619	-1.9	1.2654	-1.7	1.2841	-1.9	96.1
Hong Kong	(HK$)	7.7370	-	365 - 375	7.7378	7.7365	7.7377	-0.1	7.7395	-0.1	7.7665	-0.4	-
India	(Rs)	34.8500	-0.05	500 - 500	35.0500	34.8000	35	-5.2	35.305	-5.2	36.775	-5.5	-
Israel	(Shk)	3.2773	+0.0005	750 - 796	3.2787	3.2692	-	-	-	-	-	-	-
Japan	(Y)	108.845	-0.18	810 - 880	109.130	108.540	108.4	4.9	107.5	4.9	102.76	4.7	134.7
Malaysia	(M$)	2.4978	-0.0035	973 - 983	2.5035	2.4970	2.4987	-0.4	2.5048	-1.1	2.5293	-1.2	-
New Zealand	(NZ$)	1.4775	+0.0056	769 - 784	1.4785	1.4755	1.4808	-2.5	1.4864	-2.4	1.511	-2.3	-
Philippines	(Peso)	26.1800	-	400 - 200	26.2300	26.1400	-	-	-	-	-	-	-
Saudi Arabia	(SR)	3.7505	+0.0001	504 - 506	3.7507	3.7503	3.751	-0.1	3.7517	-0.1	3.755	-0.1	-
Singapore	(S$)	1.4095	+0.001	090 - 100	1.4105	1.4090	1.408	3.0	1.4	2.7	1.3745	2.5	-
South Africa	(R)	4.3705	-0.0045	680 - 730	4.3785	4.3650	4.418	-13.0	4.508	-12.6	4.8455	-10.9	-
South Korea	(Won)	786.950	+0.4	900 - 000	788.000	785.400	-	-	-	-	-	-	-
Taiwan	(T$)	27.7695	+0.0135	600 - 790	27.8200	27.7590	27.7745	-0.2	27.7795	-0.1	-	-	-
Thailand	(Bt)	25.3500	+0.01	400 - 600	25.3850	25.2520	25.4488	-4.7	25.5525	-4.8	25.535	-4.7	-

† SDR rate per $ for Jun 4. Bid/offer spreads in the Dollar Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. UK, Ireland & ECU are quoted in US currency. J.P. Morgan nominal indices Jun 4: Base average 1990=100.

WORLD INTEREST RATES

MONEY RATES

June 5	Over night	One month	Three mths	Six mths	One year	Lomb. inter.	Dis. rate	Repo rate
Belgium	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	7.00	2.50	-
week ago	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	7.00	2.50	-
France	[illegible]	[illegible]	[illegible]	4	[illegible]	3.70	-	5.60
week ago	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	3.70	-	5.60
Germany	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	4.50	2.50	3.30
week ago	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	4.50	2.50	3.30
Ireland	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	-	6.25
week ago	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	-	6.25
Italy	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	9.00	9.35
week ago	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	9.00	9.25
Netherlands	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	3.00	3.30
week ago	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	3.00	3.30
Switzerland	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	5.00	1.50	-
week ago	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	5.00	1.50	-
US	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	5.00	-
week ago	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	5.00	-
Japan	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	0.50	-
week ago	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	0.50	-
■ $ LIBOR FT London								
Interbank Fixing	-	[illegible]	[illegible]	[illegible]	[illegible]	-	-	-
week ago	-	[illegible]	[illegible]	[illegible]	[illegible]	-	-	-
US Dollar CDs	-	4.93	5.11	5.31	5.73	-	-	-
week ago	-	4.93	5.03	5.20	5.55	-	-	-
ECU Linked Ds	-	[illegible]	[illegible]	[illegible]	[illegible]	-	-	-
week ago	-	[illegible]	[illegible]	[illegible]	[illegible]	-	-	-
SDR Linked Ds	-	[illegible]	[illegible]	[illegible]	[illegible]	-	-	-
week ago	-	[illegible]	[illegible]	[illegible]	[illegible]	-	-	-

$ LIBOR interbank fixing rates are offered rates for $10m quoted to the market by four reference banks at 11am each working day. The banks are: Bankers Trust, Bank of Tokyo, Barclays and National Westminster.
Mid rates are shown for the domestic Money Rates, US$ CDs, ECU & SDR Linked Deposits (Ds).

EURO CURRENCY INTEREST RATES

Jun 5	Short term	7 days notice	One month	Three months	Six months	One year
Belgian Franc	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Danish Krone	[illegible]	[illegible]	4 - [illegible]	[illegible]	[illegible]	[illegible]
D-Mark	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Dutch Guilder	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
French Franc	[illegible]	[illegible]	[illegible]	4 - 3 7/8	[illegible]	[illegible]
Portuguese Esc.	7 1/2 - [illegible]	7 1/2 - [illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Spanish Peseta	7 3/8 - 7 1/4	[illegible] - 7 1/4	[illegible]	[illegible]	[illegible]	[illegible]
Sterling	[illegible]	[illegible]	[illegible]	[illegible] - 6	[illegible]	[illegible]
Swiss Franc	[illegible]	2 5/8 - 2 1/2	2 5/8 - 2 1/2	[illegible]	[illegible]	[illegible]
Can. Dollar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
US Dollar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Italian Lira	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Yen	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Asian $Sing	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Short term rates are call for the US Dollar and Yen, others: two days' notice.

■ THREE MONTH PIBOR FUTURES (MATIF) Paris interbank offered rate (FFr 5m)

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	95.99	95.97	-	96.00	95.96	9,856	48,184
Sep	95.96	95.92	-0.02	95.96	95.91	9,165	54,011
Dec	95.87	95.79	-0.02	95.87	95.78	3,461	30,585

■ THREE MONTH EUROMARK FUTURES (LIFFE)* DM1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	96.68	96.66	-0.03	96.68	96.65	10355	166239
Sep	96.73	96.70	-0.03	96.73	96.70	25422	245326

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

Jun 5		BFr	DKr	FFr	DM	I£	L	Fl	NKr	Es	Pta	SKr	SFr	£	C$	$	Y	Ecu
Belgium	(BFr)	100	18.78	16.49	4.864	2.007	4916	5.442	20.79	501.6	411.9	21.38	3.991	2.054	4.347	3.180	346.1	2.570
Denmark	(DKr)	53.25	10	8.779	2.591	1.069	2618	2.898	11.07	267.1	219.3	11.39	2.126	1.094	2.315	1.693	184.3	1.369
France	(FFr)	60.66	11.39	10	2.951	1.217	2982	3.301	12.61	304.3	249.8	12.97	2.421	1.246	2.637	1.929	210.0	1.559
Germany	(DM)	20.56	3.860	3.389	1	0.413	1011	1.119	4.274	103.1	84.67	4.396	0.821	0.422	0.894	0.654	71.16	0.528
Ireland	(I£)	49.83	9.358	8.214	2.424	1	2449	2.711	10.36	249.9	205.2	10.66	1.989	1.024	2.166	1.584	172.5	1.280
Italy	(L)	2.034	0.382	0.335	0.099	0.041	100.	0.111	0.423	10.20	8.379	0.435	0.081	0.042	0.088	0.065	7.041	0.052
Netherlands	(Fl)	18.38	3.451	3.029	0.894	0.369	903.4	1	3.820	92.19	75.69	3.930	0.733	0.378	0.799	0.584	63.61	0.472
Norway	(NKr)	48.10	9.033	7.930	2.340	0.965	2365	2.618	10	241.3	198.1	10.29	1.920	0.988	2.091	1.530	166.5	1.236
Portugal	(Es)	19.93	3.743	3.286	0.970	0.400	979.9	1.085	4.144	100.	82.10	4.263	0.796	0.410	0.867	0.634	69.00	0.512
Spain	(Pta)	24.28	4.559	4.002	1.181	0.487	1194	1.321	5.047	121.8	100.	5.192	0.969	0.499	1.055	0.772	84.04	0.624
Sweden	(SKr)	46.76	8.781	7.709	2.275	0.939	2299	2.545	9.721	234.6	192.6	10	1.868	0.961	2.033	1.487	161.9	1.202
Switzerland	(SFr)	25.05	4.705	4.130	1.219	0.503	1232	1.363	5.208	125.7	103.2	5.358	1	0.515	1.089	0.797	86.72	0.644
UK	(£)	48.68	9.141	8.025	2.368	0.977	2393	2.649	10.12	244.2	200.5	10.41	1.943	1	2.116	1.548	168.5	1.251
Canada	(C$)	23.01	4.320	3.793	1.119	0.462	1131	1.252	4.783	115.4	94.75	4.920	0.918	0.473	1	0.732	79.63	0.591
US	($)	31.45	5.905	5.184	1.530	0.631	1546	1.711	6.537	157.8	129.5	6.725	1.255	0.646	1.367	1	108.9	0.808
Japan	(Y)	28.89	5.425	4.763	1.405	0.580	1420	1.572	6.006	144.9	119.0	6.178	1.153	0.593	1.256	0.919	100.	0.742
Ecu		38.91	7.307	6.415	1.893	0.781	1913	2.118	8.090	195.2	160.3	8.321	1.553	0.799	1.691	1.237	134.7	1

Danish Kroner, French Franc, Norwegian Kroner, and Swedish Kronor per 10; Belgian Franc, Yen, Escudo, Lira and Peseta per 100.

■ D-MARK FUTURES (IMM) DM 125,000 per DM

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	0.6540	0.6538	-0.0009	0.6550	0.6525	20,367	68,709
Sep	0.6580	0.6574	-0.0008	0.6581	0.6563	5,379	11,440
Dec	-	0.6617	-0.0007	0.6617	-	97	1,511

■ JAPANESE YEN FUTURES (IMM) Yen 12.5 per Yen 100

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	0.9201	0.9198	-0.0006	0.9230	0.9180	26,995	78,313
Sep	0.9326	0.9317	-0.0003	0.9332	0.9310	3,803	10,809
Dec	0.9445	0.9440	-	0.9445	0.9440	235	3,048

■ SWISS FRANC FUTURES (IMM) SFr 125,000 per SFr

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	0.7964	0.7973	+0.0009	0.7975	0.7951	15,246	37,794
Sep	0.8016	0.8030	+0.0007	0.8030	0.8016	2,706	7,200

■ STERLING FUTURES (IMM) £62,500 per £

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	1.5492	1.5480	-0.0022	1.5532	1.5442	9,889	68,370
Sep	1.5524	1.5460	-0.0022	1.5530	1.5524	2,116	7,060

UK INTEREST RATES

LONDON MONEY RATES

EMS EUROPEAN CURRENCY UNIT RATES

BASE LENDING RATES

LONDON SHARE SERVICE

ALCOHOLIC BEVERAGES

[illegible]

BANKS, MERCHANT

[illegible]

BANKS, RETAIL

[illegible]

BREWERIES, PUBS & REST

[illegible]

BUILDING & CONSTRUCTION

[illegible]

BUILDING MATS. & MERCHANTS

[illegible]

CHEMICALS

[illegible]

DISTRIBUTORS

[illegible]

DIVERSIFIED INDUSTRIALS

[illegible]

ELECTRICITY

[illegible]

ELECTRONIC & ELECTRICAL EQPT

[illegible]

ELECTRONIC & ELECTRICAL EQPT - Cont.

[illegible]

ENGINEERING

[illegible]

ENGINEERING - Cont.

[illegible]

ENGINEERING, VEHICLES

[illegible]

EXTRACTIVE INDUSTRIES

[illegible]

EXTRACTIVE INDUSTRIES - Cont.

[illegible]

FOOD PRODUCERS

[illegible]

FOOD PRODUCERS - Cont.

[illegible]

GAS DISTRIBUTION

[illegible]

HEALTH CARE

[illegible]

HOUSEHOLD GOODS

[illegible]

INSURANCE

[illegible]

INVESTMENT TRUSTS

[illegible]

INVESTMENT TRUSTS - Cont.

[illegible]

INV TRUSTS SPLIT CAPITAL

[illegible]

LONDON SHARE SERVICE

INV TRUSTS SPLIT CAPITAL - Cont.

LEISURE & HOTELS - Cont.

OTHER FINANCIAL - Cont.

PROPERTY - Cont.

SUPPORT SERVICES - Cont.

AIM - Cont.

PAPER, PACKAGING & PRINTING

TELECOMMUNICATIONS

LIFE ASSURANCE

RETAILERS, FOOD

TEXTILES & APPAREL

AMERICANS

MEDIA

RETAILERS, GENERAL

PHARMACEUTICALS

CANADIANS

TOBACCO

OTHER INVESTMENT TRUSTS

TRANSPORT

SOUTH AFRICANS

	Notes	Price	+ or –	52 week high	low	Mkt Cap£m	Yld Gr's	P/E
Anglo Am Ind		£28½	—	£34½	£28½	1,904	2.8	ф
Barlow	$†	598	—	£10½	55.2	1,359	2.0	–
Gold Flds Prop R		133	–4	170	130	13.6	8.7	10.0
NK Props		75	—	96	75	3.01	12.8	–
SASOL	♥	654	+18	710	475	3,829	1.8	–
SA Brews		£19½xd	–½	£28½	£17½	5,888	1.9	ф
Standard Bank	□	£23½	+½	£32½	£20½	2,823	1.7	19.5
Tiger Oats	†	875	+15	1270	805	1,378	1.9	17.3
Tongaat-Hulett		800xd	–10	1247	685	767.3	2.4	ф

INVESTMENT COMPANIES

OIL, EXPLORATION & PRODUCTION

PHARMACEUTICALS - Cont.

RETAILERS, GENERAL - Cont.

PROPERTY

WATER

SUPPORT SERVICES

AIM

OIL, INTEGRATED

OTHER FINANCIAL

LEISURE & HOTELS

GUIDE TO LONDON SHARE SERVICE

Prices for the London Share Service delivered by FT Extel, a member of the Financial Times Group.

Company classifications are based on those used for the FT-SE Actuaries Share Indices.

Closing mid-prices are shown in pence unless otherwise stated. Highs and lows are based on intra-day mid-prices over a rolling 52 week period.

Where stocks are denominated in currencies other than sterling, this is indicated after the name.

Symbols referring to dividend status appear in the notes column daily as a guide to yields and P/E ratios. Dividends and Dividend covers are published on Monday.

Market capitalisation shown is calculated separately for each line of stock quoted.

Earnings used in calculations are based on IIMR 'Headline Earnings' formula.

Price/earnings ratios are based on latest annual reports and accounts and, where possible, are updated on interim figures.

Yields are based on mid-prices, are gross, adjusted for a dividend tax credit of 20 per cent and allow for value of declared distribution and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm –) to the current closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

- □ Indicates the most actively traded stocks. This includes UK stocks where transactions and prices are published continuously through the Stock Exchange Automated Quotation system (SEAQ) and non-UK stocks through the SEAQ International system.
- • Highs and lows marked thus have been adjusted to allow for capital changes
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ф Figures or report awaited
- ♥ Rule 2.1(a)(iv) Overseas incorporated companies listed on an approved exchange.
- ♣ Free annual/interim report available, see details below.
- ⚘ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- ‡‡ Rule 4.2(a) Irish incorporated non-listed companies.
- # Price at time of suspension
- ¶ Indicated dividend yield after pending scrip and/or rights issue.
- ♦ Merger bid or reorganisation in progress
- § Forecast dividend yield; p/e based on earnings updated by latest interim statement.
- ♠ Unregulated collective investment scheme.

a Yield based on annualised dividend
b Figures based on prospectus or other official estimates.
g Assumed dividend yield after rights issue.
h Assumed dividend yield after scrip issue.
n Rights issue pending
q Earnings based on preliminary figures.
s Dividend yield excludes a special payment.
t Indicated dividend yield, p/e ratio based on latest annual earnings.
u Forecast, or estimated annualised dividend yield, p/e based on previous year's earnings
z Dividend yield includes a special payment

F Yield based on prospectus or other official estimates for 1996-97.
G Assumed yield after pending scrip and/or rights issue.
H Yield based on prospectus or other official estimates for 1995.
K Yield based on prospectus or other official estimates for 1996
L Estimated annualised yield, p/e based on latest annual earnings.
M Yield based on prospectus or other official estimates for 1995-96.
N Dividend is paid in whole or part as a

FID (Foreign Income Dividend)
R Forecast annualise yield, p/e based on prospectus or other official estimates
W Pro forma figures.
Z Dividend yield to date.

Abbreviations:
xd ex dividend;
xc ex scrip issue,
xr ex rights;
xa ex all;
xf ex capital distribution.

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1350 a year for each security shown, subject to the Editor's discretion

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For readers phoning from outside UK, please dial +44 in place of the first 0.

The share prices printed on these pages are also available on the internet at www.FT.com.

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OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

[illegible]

BERMUDA (REGULATED)(**)

[illegible]

GUERNSEY (SIB RECOGNISED)

[illegible]

Sarasin Funds Mngmt (Guernsey) Ltd

PO Box 248, St Peter Port, Guernsey 01481 723021

[illegible]

Schroder Investment Mngmt (Guernsey) Ltd

PO Box 255, St Peter Port, Guernsey 01481 710551

[illegible]

GUERNSEY (REGULATED)(**)

[illegible]

IRELAND (SIB RECOGNISED)

[illegible]

LGT Asset Management Ltd

[illegible]

IRELAND (REGULATED)(**)

[illegible]

Dragon Korea Fund Plc

Dynamic Pacific Portfolio Fund Plc

Egerton Capital European Fund Plc

Emerging Dynamic Fund Plc

Emerging Market Growth Fund Plc

[illegible]

CMI Fund Managers (IoM)

Mercury Fund Managers IoM Ltd

Quilter Intl Mngt (IoM) Ltd

Sun Life Management (IoM) Ltd

[illegible]

ISLE OF MAN (REGULATED)(**)

[illegible]

ISLE OF MAN (SIB RECOGNISED)

[illegible]

Jupiter Tyndall (Jersey) Ltd

Lloyds Private Banking (CI) Ltd

Lombard Odier (Jersey) Ltd

[illegible]

JERSEY (SIB RECOGNISED)

[illegible]

JERSEY (REGULATED)(**)

[illegible]

Fidelity Funds - Contd.

Fleming Group (u)

[illegible]

LUXEMBOURG (SIB RECOGNISED)

[illegible]

Schroder International Selection Fd - Contd.

[illegible]

LUXEMBOURG (REGULATED)(**)

[illegible]

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

Credit Investment Funds - Contd.

NICAM Asia Pacific Umbrella Fund

CMI Insurance Co Ltd

Royal Skandia Life Assurance Ltd (z)

Chescor Indian Investment Company Ltd

Global Asset Management - Contd.

Magnum Funds

Regent Kingpin Capital Management Ltd

OTHER OFFSHORE FUNDS

OFFSHORE INSURANCES

MANAGED FUNDS NOTES

LONDON STOCK EXCHANGE

MARKET REPORT

Fund raising fears again overshadow equities

By Steve Thompson, UK Stock Market Editor

The widespread enthusiasm that gripped London's equity market on Tuesday afternoon reappeared briefly yesterday but evaporated only minutes after the market opened.

At the end of a session that promised much, but eventually delivered precious little, the FT-SE 100 index *displayed a disappointing 1.8 points* decline at 3,753.4. Sentiment was worse in the market's second liners, where the FT-SE Mid 250 index fell sharply, closing 16.5 off at 4,476.0.

Dealers ascribed the market's disappointing performance to persistent worries about a potential *substantial fund raising operation.*

The market's leading candidates to launch a big rights issue included BBA – which confirmed recent market rumours that it intended bidding for Lucas, the motor components group – and Prudential, the insurance company. The Pru has long been rumoured to be considering the purchase of a big building society, possibly financed *by a cash call or other means.*

The Woolwich Building Society and the Alliance & Leicester Building Society were both being put forward as possible takeover targets for the Pru, with dealers taking the view that the purchase of either would mean the Pru needing to raise upwards of £1bn.

There was no disguising the disappointment around trading desks with the market's performance yesterday. Wall Street delivered a good showing on Tuesday night, climbing 41 points, and raising hopes that its recent correction, prompted by worries about growing inflationary pressures, had run its course.

And the market's hunger for *more bid action* was satisfied by news that BBA was looking to launch a bid for Lucas, already in the throes of merging with Varity, of the US. There was more takeover news: *Blenheim, the exhibitions* company, said it had received an approach from an unnamed suitor, and an increased offer for Allders' duty-free shops from BAA was almost instantly topped by Swissair.

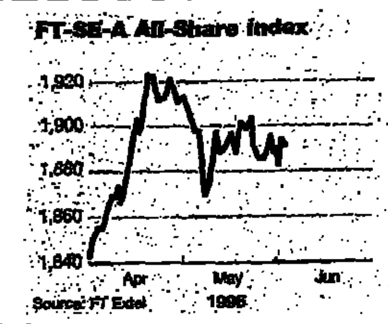
A senior dealer at one big European securities house said London was still overshadowed by rights issue worries as well as concerns that Friday's US non-farm payroll report might cause another bout of unease across global markets.

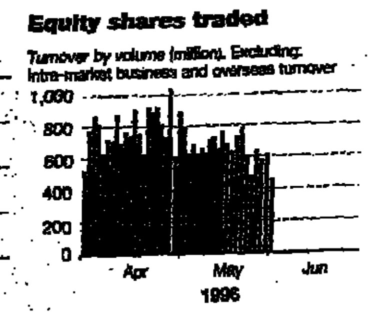
"It is going to be difficult for London *to make* any real progress until the rumoured cash calls are out of the way and the US report is known," said one senior dealer at a leading European securities house.

Hints of fresh bid action kept the composite insurers at the forefront *of the Footsie performance league.* A share buyback by PowerGen, involving the purchase of some 35m shares, *saw some of the market's* big institutions switching the proceeds into National Power.

The latest move by Offer, the electricity industry watchdog, proposing a 3 to 5 per cent cut in prices *charged by the Scottish generators* upset Scottish Power and Scottish Hydro. There are still suggestions in the market, however, that a bid from the US could be on the way for Scottish Power, currently involved in the battle for Southern Water.

Turnover in equities at 6pm was *842.9m shares. Customer activity on* Tuesday was worth £1.95bn.





Indices and ratios

FT-SE 100	3753.4	–1.8	FT Ordinary index	2792.9	+0.7
FT-SE Mid 250	4476.0	–16.5	FT-SE-A Non Fins p/e	16.80	16.85
FT-SE-A 350	1899.2	–2.3	FT-SE 100 Fut Jun	3756.0	–3.5
FT-SE-A All-Share	1885.49	–1.60	10 yr Gilt yield	8.08	8.03
FT-SE-A All-Share yield	3.81	3.80	Long gilt/equity yld ratio:	2.19	2.19

Best performing sectors
1 Retailers: Food ...... +1.1
2 Banks: Retail ...... +0.7
3 Engineering: Vehicles ...... +0.6
4 Retailers: General ...... +0.5
5 Breweries: Pubs & Rest ...... +0.4

Worst performing sectors
1 Paper: Pckg & Printing ...... –1.5
2 Water ...... –1.4
3 Oil Exploration & Prod ...... –1.3
4 Telecommunications ...... –0.9
5 Transport ...... –0.9

United News 'on the prowl'

Anticipation of a knockout blow from United News & Media sent Blenheim, the exhibitions organiser, *shooting 70* higher to 409p.

Blenheim announced at the start of trading that it had received an approach which may *or may not lead to an* offer. Informed opinion pointed to the media group as the most *obvious aggressor.*

The view was that Lord Hollick had his sights on Blenheim, when head of MAI, but did not have the muscle to make a move until the recent merger with United. It was also felt that, as some 40 per cent of *Blenheim's shares are very* tightly held by stakeholders closely linked with the company, the bidder will have to pay dearly for the acquisition.

A *price of 550p a share* was seen as the very lowest offer that would tempt. United slipped 19 *to 707p* in response to the statement.

BBA tumbles

Shares in BBA *dropped for* the second day running, as news that it was considering a bid for Lucas Industries met with outright disbelief from City engineering teams.

"A bid for Lucas has no industrial logic whatever and *would be heavily earnings dilutive.* I simply cannot see the institutions buying this one, if it comes," said one top analyst.

Lucas, which recently announced plans to merge with Varity, of the US, raced ahead by 8 to a new high of *254p in 18m traded. It was also* a busy day in the options pits for the group.

In marked contrast, BBA moved even more rapidly in the opposite direction, tumbling 21¼ to 295¾p to extend its decline to almost 10 per *cent in two days.*

The BBA management was said yesterday to be lobbying hard among its institutional shareholders.

A cool response was thought to be widespread. Lucas dismissed the prospect of a deal *out of hand.*

Water disappoints

Results from Yorkshire Water were in line with market expectations but the shares receded 16 to 718p.

Any immediate plans for a share buyback were dashed by the management, which acknowledged the need to restore battered customer *confidence following last summer's* drought and Monday's *stinging* comments from the regulator.

Analysts said there would not be a *buyback* before December and takeover ardour had been dampened by the *stock's valuation. One sector* specialist said: "Of the stocks that are not being bid for, this is the most highly rated in the sector. It should come back all the way to 650p."

Yorkshire was also affected, along with the rest of the sector, *by a reaffirmation from the* Labour party that it would introduce a windfall tax on the privatised water companies.

Anglian Water and Wessex, seen as prime takeover candidates, fell 12 to 590p and 4 to 358p respectively.

A *squeeze helped* food retailer Tesco rise to the top of the list of the day's best performing Footsie stocks. The shares gained 8 at 313½p in *trade of* 7.8m, with SGST and Kleinwort Benson said to have shown a keen interest in the *stock.*

The group, which holds its annual meeting tomorrow, raised the *stakes* in the supermarket price war earlier this week when it announced *plans* to extend its successful Clubcard loyalty card scheme by adding debit and interest payment facilities. The scheme already has 8.5m users.

Foods and household products group Unilever hardened *11 to 1212p on talk that a* strong recommendation from a leading broker was about to land on investors' desks.

PowerGen was the most heavily traded stock in London as the generator bought back 37.5m of its shares – or 5.32 per *cent of its capital – through* UBS at 483p a share. Final turnover was 85m. But there was some surprise that the share price actually fell on the deal, losing 3 at 485p.

Otherwise, regional electricity companies moved higher on *expectation of US bids.*

Bluebird Toys sparkled yesterday as bid speculation drove the stock sharply ahead. At the close the shares showed a gain *of 27 at 275p after trade of* 1.3m. US group Hasbro, which holds a 6.7 per cent stake in the UK company, *was said to* be a possible suitor, as was Mattel, another US group.

The prospect of Manchester United signing a lucrative *television contract boosted the* shares 26 to 431p.

Independent petrol retailer *Frost Group fell 9 to 100p after* the company warned that the continuing petrol price war will affect first-half figures.

The final round in the bid *battle for Allders' duty-free* business pushed the shares 16 higher to 215p.

But analysts were divided in their valuations of Allders, depending *on whether they* believed the proceeds of the sale would go back to shareholders *through a share buyback*, or be invested in the business.

Analysts were uncertain as to why W.H. Smith was down *11 to 445p. Suggestions* included a fresh wave of price competition among newspapers, and concerns over Do It All, owned jointly by Smith with Boots, which reports today. Boots finished unchanged at 606p.

Leading transport stocks had a bad day, with BAA, British Airways and P&O all moving *sharply lower.*

The latest twist in the Allders takeover saga left the airports group trailing by 4 to 486p, while BA came off 6 to *538p following disappointing* May traffic figures. A profits downgrade at Panmure Gordon, plus what was said to be soundings by a sizeable seller, combined to depress P&O, which slipped 4 to 515p.

Disappointing results sparked broker profits downgrades at Racal Electronics. NatWest Securities moved its numbers lower for this year and ABN Amro Hoare Govett came back from £78m to £65.5m. The shares ended 16 off at 304p after above average *volume of 4.9m.*

Capital Radio shed a penny to 696p ahead of an announcement that IP Groupe, a subsidiary of the French media conglomerate Havas, was selling its 17 per cent stake in the company. The placing of *almost 14m shares through* Goldman Sachs will net IP around £100m.

Building materials leader Blue Circle added 6 at 358p following a broker's buy note. Morgan Crucible put on 15 at 447p after Credit Lyonnais *Laing issued a buy note* ahead of the annual meeting.

Tom Cobleigh jumped 20 to 250p on the announcement that European Acquisition Capital *was considering the disposal of* its 50 per cent stake.

Anticipation of the share split at Regent Inns next week prompted a 13 rise to 1163p.

Allied Domecq's fall of 9 to 475p was initially attributed to a downgrade by Cazenove. The *broker never comments publicly* on its recommendations, but one securities house later said it was a "vicious rumour".

MARKET REPORTERS:
Peter John, Joel Kibazo, Jeffrey Brown, Lisa Wood.

FINANCIAL TIMES EQUITY INDICES

	Jun 5	Jun 4	Jun 3	May 31	May 30	Yr ago	*High	*Low
Ordinary Share	2792.9	2792.2	2777.2	2791.8	2790.3	2543.5	2885.2	2696.7
Ord. div. yield	3.89	3.89	4.01	4.00	3.99	4.21	4.06	3.76
P/E ratio net	16.18	16.18	16.11	16.16	16.16	15.89	17.25	15.96
P/E ratio nil	15.96	15.97	15.90	15.94	15.96	15.65	17.03	15.76

Ordinary Share index since compilation: high 2885.2 19/04/96; low 49.4 26/06/40. Base Date: 1/7/35.

Ordinary Share hourly changes

Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.00	High	Low
2793.6	2788.0	2795.5	2792.4	2791.8	2793.1	2790.7	2791.7	2792.3	2796.4	2788.0

	Jun 5	Jun 4	Jun 3	May 31	May 30	Yr ago
SEAQ bargains	32,595	31,716	35,574	33,026	32,007	24,404
Equity turnover (£m)†	–	1946.8	1255.9	1664.2	1708.8	1468.0
Equity bargains†	–	39,605	37,931	38,722	37,801	34,489
Shares traded (mil)†	–	711.0	452.3	602.5	580.3	606.2

†Excluding intra-market business and overseas turnover.

	Jun 5	Jun 4	Jun 3	May 31	May 30	Yr ago	*High	*Low
FT-SE AIM	1101.40	1104.30	1110.10	1140.40	1095.40	–	1140.40	985.66

*For 1996.

■ London market data

Rises and falls*		52 Week highs and lows		LIFFE Equity options	
Total Rises	592	Total Highs	127	Total contracts	34,817
Total Falls	582	Total Lows	27	Calls	11,783
Same	1,571			Puts	23,034

June 5 *Data based on Equity shares listed on the London Share Service.

FUTURES AND OPTIONS

■ FT-SE 100 INDEX FUTURES (LIFFE) £25 per full index point (APT)

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	3762.0	3756.0	-3.5	3762.0	3742.0	7027	44243
Sep	3787.0	3782.0	-3.5	3787.0	3750.0	1065	16021
Dec	3787.0	3789.0	-3.5	3787.0	3787.0	15	832

■ FT-SE MID 250 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	4480.0	4485.0	-8.0	4490.0	4490.0	100	1386
Sep	4529.0	4524.0	-8.0	4529.0	4529.0	100	2770

■ FT-SE 100 INDEX OPTION (LIFFE) (*3750) £10 per full index point

[illegible]

■ EURO STYLE FT-SE 100 INDEX OPTION (LIFFE) £10 per full index point

[illegible]

† Long dated expiry months.

LONDON RECENT ISSUES: EQUITIES

Issue price p	Amt paid up	Mkt. cap (£m.)	1996 High	1996 Low	Stock	Close price p	+/-	Net div.	Div. cov.	Grs yld	P/E net
-	F.P.	44.2	102	101	AIM Trust	101					
100	F.P.	78.5	105	100	Aberforth Smlr C	102					
-	F.P.	4.33	55	43	Biocompatibles W	55					
105	F.P.	12.5	124	118	†CA Coutts	118					
90	F.P.	10.9	108	98	†Carisbrooke	108					
-	F.P.	58.2	81	38	†Emtech	65					
-	F.P.	22.8	116	88	†Epic Multimedia	106					
-	F.P.	23.1	97½	91	Gartmore Select	92½	+½				
-	F.P.	1.38	65	50	†Hercules Prop	60					
-	F.P.	27.4	101	50	INVESCO E & I C	98	-1				
-	F.P.	14.2	116	108	†Independent Engy	108					
-	F.P.	6.30	6½	3¼	†Just Group	5					
200	F.P.	43.6	295	253	Luminar	293	+6	L8.0	2.2	3.5	18.2
-	F.P.	115.2	293	220	Maiden Group	293		R4.8	-	2.0	-
-	F.P.	34.3	208	168	†Mulberry Group	173	+5				
-	F.P.	26.6	205	180	†Prism Rail	205					
190	P.P.	2, 82	229	205	Railtrack	215½		W20.6	2.0	6.4	7.5
70	F.P.	32.7	123	103	Recognition Sys	121	+3				
-	F.P.	5.39	99	43	†Reflec	79	-2				
-	F.P.	24.5	99	95	Renaissance US G	96					
-	F.P.	18.9	75	75	SEA Multimedia	75					
-	F.P.	18.8	196	98	Schroder Venture	194					
-	F.P.	-	97	93	Taiwan Inv Tst C	93	-1½				
-	F.P.	22.5	15	7¼	†Thomas Potts	12					
-	F.P.	3.10	56	43	†Tom Hoskins	55	-2				
84	F.P.	3.84	95	91	†Whitecross	91					

† Alternative Investment Market. For a full explanation of all other symbols please refer to The London Share Service notes.

FT GOLD MINES INDEX

	Jun 4	% chg on day	Jun 3	Year ago	Gross div yield %	P/E ratio	52 week High	52 week Low
Gold Mines Index (31)	2319.31	-2.2	2374.38	1889.29	1.33	-	2920.73	1772.83
■ Regional indices								
Africa (13)	3107.93	-1.1	3144.05	2551.13	2.32	42.43	3553.86	2272.74
Australasia (6)	2528.68	-1.5	2577.22	2167.03	2.52	28.49	2927.34	2093.51
North America (12)	2052.03	-2.8	2114.02	1663.24	0.86	72.97	2185.39	1483.94

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FT-SE Actuaries Share Indices — The UK Series

	Jun 5	Day's chge%	Jun 4	Jun 3	May 31	Year ago	Div. yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
FT-SE 100	3753.4	----	3755.2	3739.2	3747.8	3370.8	4.03	2.16	14.36	83.77	1534.14
FT-SE Mid 250	4476.0	-0.4	4492.6	4505.5	4510.0	3695.8	3.38	1.79	21.19	56.60	1795.42
FT-SE Mid 250 ex Inv Trusts	4518.3	-0.4	4536.2	4551.4	4553.0	3704.7	3.48	1.79	20.02	60.83	1815.00
FT-SE-A 350	1899.2	-0.1	1901.5	1896.5	1900.3	1674.6	3.89	2.08	15.50	41.15	1568.52
FT-SE-A 350 Higher Yield	1827.1	-0.2	1830.6	1826.0	1832.0	1697.1	5.15	1.92	12.64	48.54	1273.48
FT-SE-A 350 Lower Yield	1979.8	----	1979.8	1972.3	1975.9	1650.9	2.73	2.35	19.53	34.06	1370.47
FT-SE SmallCap	2239.10	+0.3	2232.39	2229.39	2229.72	1865.58	2.91	1.77	24.23	30.02	1835.99
FT-SE SmallCap ex Inv Trusts	2239.32	+0.4	2231.42	2229.28	2226.73	1842.79	3.07	1.89	21.89	31.99	1847.60
FT-SE-A ALL-SHARE	1885.49	-0.1	1887.09	1882.29	1885.78	1654.84	3.81	2.05	15.96	39.59	1589.41

■ FT-SE Actuaries All-Share

[illegible]

■ Hourly movements

	Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.10	High/day	Low/day
FT-SE 100	3759.2	3763.6	3755.8	3761.9	3760.8	3749.5	3748.8	3749.9	3760.6	3760.0	3745.4
FT-SE Mid 250	4487.5	4482.1	4479.8	4478.4	4475.0	4473.1	4473.3	4472.5	4478.1	4487.5	4472.4
FT-SE-A 350	1902.8	1899.9	1900.5	1898.9	1898.1	1897.5	1898.5	1897.5	1898.1	1902.9	1895.8

■ FT-SE Actuaries 350 Industry baskets

[illegible]

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TRADING VOLUME

■ Major Stocks Yesterday

	Vol. 000s	Closing price	Day's change
[illegible]			

Based on trading volume for a selection of major securities dealt through the SEAQ system yesterday until 4.30pm. † Indicates an FT-SE 100 Index constituent. All trades are rounded. Source: FT Extel.

هكذا من الأصل

WORLD STOCK MARKETS

EUROPE

AUSTRIA (Jun 5 / Sch)

BELGIUM/LUXEMBOURG (Jun 5 / Frs.)

CZECH REP (Jun 5 / Korona)

DENMARK (Jun 4 / Kr)

FINLAND (Jun 5 / Mkk)

FRANCE (Jun 5 / Frs.)

GERMANY (Jun 5 / Dm.)

GREECE (Jun 5 / Drachma)

ITALY (Jun 5 / Lira)

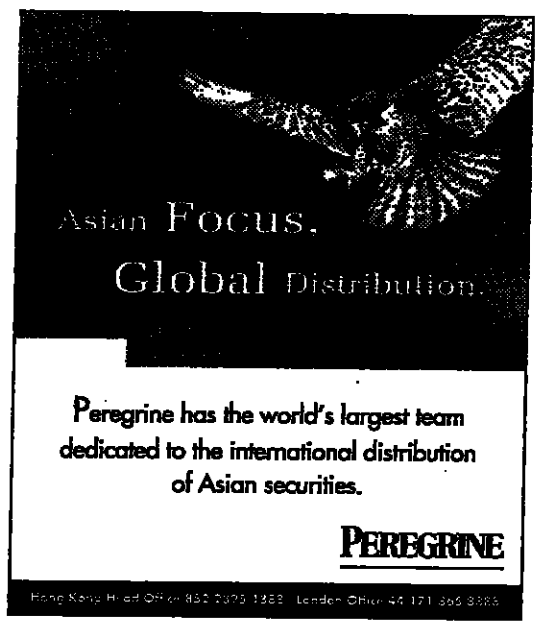
NETHERLANDS (Jun 5 / Fl.)

NORWAY (Jun 5 / Kroner)

POLAND (Jun 5 / Zloty)

PORTUGAL (Jun 5 / Escudo)

		+/-	High	Low	Yld	P/E
BCO Pt	2,040	...	2,070	1,789	4.9	...
BCPort	1,900	-14	2,140	1,894	3.2	...
BESant	2,490	-7	2,600	2,220	4.5	...
BancTA	3,050	+5	3,120	2,485	6.2	...
MonCnt	4,070	+10	4,340	3,900	1.6	...
PTelcm	3,684	-36	3,875	2,803	2.5	...
Soninv	3,979	-11	4,020	3,780	3.8	...
Unicer	2,780	-20	2,980	2,405	3.6	...



SPAIN (Jun 5 / Pts.)

SWEDEN (Jun 5 / Kronor)

SWITZERLAND (Jun 5 / Frs.)

TURKEY (Jun 5 / TK Lira)

PACIFIC

JAPAN (Jun 5 / Yen)

HONG KONG (Jun 5 / H.K.$)

INDONESIA (Jun 5 / Rupiah)

MALAYSIA (Jun 5 / MYR)

NEW ZEALAND (Jun 5 / NZ $)

SINGAPORE (Jun 5 / S$)

AUSTRALIA (Jun 5 / Aust$)

SOUTH KOREA (Jun 5 / Won)

TAIWAN (Jun 5 / TW $)

THAILAND (Jun 5 / Baht)

NORTH AMERICA

CANADA

TORONTO (Jun 5 / Can $)
4 pm close

MONTREAL (Jun 5 / Can $)
4 pm close

AFRICA

SOUTH AFRICA (Jun 5 / Rand)

Prices supplied by Telekurs

NOTES - Prices on this page are as quoted on the individual exchanges and are mostly last traded prices. Highs/Lows are based on data from Jan 1 1996. # Dealings suspended. xd Ex dividend. xc Ex scrip issue. xr Ex rights. xa Ex all. † Priced in US $.

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INDICES

	Jun 5	Jun 4	Jun 3	1996 High		1996 Low	
Argentina							
General(29/12/77)	(u)	17711.17	17728.97	18881.95	20/5	15928.81	19/3
Australia							
All Ordinaries(1/1/80)	2229.7	2236.0	2230.2	2328.06	26/4	2187.40	11/3
All Mining(1/1/80)	1067.1	1078.7	1080.0	1118.40	8/5	1004.70	16/1
Austria							
Credit Aktien(30/12/84)	391.92	391.65	392.08	394.98	31/5	352.78	2/1
Traded Index(2/1/91)	1138.89	1134.81	1137.78	1142.81	28/5	975.27	2/1
Belgium							
BEL20(1/1/91)	1760.94	1754.31	1747.78	1773.28	28/5	1574.90	2/1
Brazil							
Bovespa(29/12/83)	(u)	55994.0	56351.0	57108.89	28/5	43601.00	2/1
Canada							
Metals Minls♦(1975)	(u)	5375.90	5407.46	5824.88	8/5	4687.47	18/1
Composite♦(1975)	(u)	5224.50	5234.30	5239.90	22/5	4739.70	15/1
Portfolio§§(4/1/83)	(u)	2551.09	2552.17	2585.55	27/5	2327.39	12/1
Chile							
IGPA Gen♥(31/12/80)	(u)	5309.20	5385.34	5604.39	8/1	5215.28	8/4
Denmark							
CopenhagenSE(3/1/83)	(c)	401.45	401.60	407.07	28/5	368.48	2/1
Finland							
HEX General(28/12/90)	2043.15	2055.65	2054.73	2070.42	31/5	1861.67	10/1
France							
SBF 250(31/12/90)	1449.53	1447.89	1450.26	1458.83	28/5	1280.16	2/1
CAC 40(31/12/87)	2115.35	2111.00	2121.10	2146.79	30/4	1897.85	11/1
Germany							
FAZ Aktien(31/12/58)	889.49	885.92	891.25	904.98	23/5	818.59	2/1
Commerzbank(1/12/53)	2581.10	2574.10	2563.30	2601.80	23/4	2378.20	2/1
DAX‡(30/12/87)	2552.53	2546.25	2532.83	2579.78	21/5	2284.86	2/1
Greece							
Athens SE(31/12/80)	922.90	926.10	(c)	1017.96	4/3	901.03	29/4
Hong Kong							
Hang Seng(31/7/64)	11092.51	11086.91	11059.81	11594.99	18/2	10204.87	2/1
India							
BSE Sens.(1979)	3813.05	3793.46	3799.01	3969.87	24/4	2828.08	25/1
Indonesia							
Jakarta Comp.(10/8/82)	616.07	615.92	624.47	638.21	24/4	512.48	2/1
Ireland							
ISEQ Overall(4/1/88)	2568.06	2540.67†	(c)	2588.08	5/6	2234.81	2/1
Italy							
Banca Comm Ital(1972)	661.92	663.04	661.13	674.16	20/5	572.21	23/3
MIB General(2/1/96)	1122.0	1124.0	1120.0	1142.00	20/5	970.00	27/3
Japan							
Nikkei 225(16/5/49)	21881.43	21858.12	21588.52	22282.05	24/4	19734.70	13/3
Nikkei 300(1/10/82)	310.89	310.90	307.81	318.06	26/4	284.48	11/3
Topix(4/1/68)	1675.10	1675.55	1658.64	1718.60	26/4	1524.12	13/3
2nd Section(4/1/68)	2214.27	2208.07	2198.15	2243.28	2/5	1962.78	14/3
Malaysia							
KLSE Comp.(4/4/86)	1135.39	1133.62	1131.50	1188.54	30/4	993.18	2/1
Mexico							
IPC(Nov 1978)	(u)	3228.34	3191.78	3362.88	22/5	2738.38	8/3
Netherland							
CBS TtlRtnGen(End 83)	646.9	645.9	646.0	648.60	5/6	539.58	2/1
CBS All Shr(End 83)	384.9	383.1	383.2	384.90	5/6	328.79	2/1
New Zealand							
Cap. 40(1/7/86)	2044.43	2036.05	(c)	2203.08	4/1	2036.85	4/6
Norway							
Oslo SE(Ind)(2/1/83)	1441.88	1439.86	1429.94	1444.72	28/4	1259.68	30/1
Philippines							
Manila Comp(2/1/85)	3239.57	3215.04	3231.37	3288.30	30/5	2578.97	2/1
Portugal							
BVL 30(4/1/93)	1868.22	1867.30	1862.31	1895.89	30/5	1602.81	2/1
Singapore							
SES All-S'pore(2/4/75)	591.41	591.03	595.24	610.37	5/2	553.89	2/1
South Africa							
JSE Gold(28/9/78)	1976.3♥	2013.2	2018.8	2090.40	29/5	1348.40	2/1
JSE Ind.(28/9/78)	7999.1♥	8013.6	7995.0	8730.30	25/1	7723.20	20/5
South Korea							
KoreaCmpEx**(4/1/80)	913.27	909.43	897.22	986.84	7/5	836.87	13/3
Spain							
Madrid SE(30/12/85)	362.58	361.84	358.57	365.81	28/5	323.75	11/1
Sweden							
AffarsvardsGen(1/2/37)	2006.2	2000.7	1972.5	2008.20	5/6	1708.80	22/1
Switzerland							
Swiss Bk Ind(31/12/58)	1727.24	1730.64	1720.27	1779.54	26/4	1578.19	17/1
SBC General(1/4/87)	1221.47	1220.46	1214.12	1259.89	25/4	1114.47	26/1
Taiwan							
WeightedPr.**(30/6/66)	5951.86	5921.92	5973.49	6132.70	29/4	4690.22	8/2
Thailand							
Bangkok SET(30/4/75)	1276.81	1290.79	1294.11	1415.94	8/2	1247.79	13/3
Turkey							
Istanbul Cmp.(Jan 1986)	82310.2	83181.2	82298.2	72066.80	8/4	38779.30	2/1
WORLD							
MS Capital Intl$(1/1/70)	776.8*	776.3	773.7	780.30	22/5	725.90	15/1
CROSS-BORDER							
Eurotrack 100(26/10/90)	1684.32	1681.25	1677.46	1688.17	28/5	1504.40	11/1
Euro Top-100(26/6/90)	1442.85	1442.83	1437.41	1458.28	26/4	1333.01	11/1
HSBC JC Drgn(31/12/88)	(u)	375.49	375.54	383.16	16/4	344.19	2/1
ING Brngs Emrg(7/1/92)	160.46	160.83	161.88	164.14	14/5	147.36	2/1

US INDICES

Dow Jones	Jun 4	Jun 3	May 31	1996 High	1996 Low	Since compilation High	Since compilation Low
Industrials	5665.71	5624.71	5643.18	5778.00 (22/5)	5032.94 (10/1)	5778.00 (22/5/96)	41.22 (8/7/32)
Home Bonds	101.79	101.55	101.80	106.09 (14/2)	101.19 (8/5)	108.77 (18/10/93)	54.99 (1/10/81)
Transport	2239.12	2237.98	2226.00	2298.20 (22/5)	1882.71 (18/1)	2298.20 (22/5/96)	12.32 (8/7/32)
Utilities	209.82	208.50	208.96	234.00 (12/2)	205.42 (7/5)	256.46 (31/8/93)	10.50 (8/4/32)

DJ Ind. Day's high 5687.84 (5662.75) Low 5616.58 (5587.40) (Theoretical♦)
Day's high 5671.99 (5643.18) Low 5625.81 (5606.61) (Actual♦)

Standard and Poors	Jun 4	Jun 3	May 31	1996 High	1996 Low	Since compilation High	Since compilation Low
Composite‡	672.56	667.68	669.12	678.51 (24/5)	598.48 (10/1)	678.51 (24/5/96)	4.40 (1/6/32)
Industrials¥	801.98	798.92	798.29	807.32 (24/5)	702.87 (15/1)	807.32 (24/5/96)	3.62 (21/6/32)
Financial	67.58	66.74	66.73	68.58 (5/3)	58.67 (10/1)	68.58 (5/3/96)	8.64 (1/10/74)
NYSE Comp.	360.80	358.27	358.83	363.74 (24/5)	321.41 (10/1)	363.74 (24/5/96)	4.46 (25/4/42)
Amex Mkt Val	607.44	608.71	610.93	614.89 (22/5)	529.05 (18/1)	614.89 (22/5/96)	29.31 (9/12/72)
NASDAQ Cmp	1243.68	1238.73	1243.43	1248.65 (23/5)	988.57 (15/1)	1248.65 (23/5/96)	54.87 (31/10/72)

■ RATIOS

	May 31	May 24	May 17	Year ago
Dow Jones Ind. Div. Yield	2.18	2.16	2.17	2.48
	May 29	May 22	May 15	Year ago
S & P Ind. Div. yield	1.88	1.83	1.86	2.21
S & P Ind. P/E ratio	22.38	22.71	21.99	18.77

■ NEW YORK ACTIVE STOCKS

Tuesday	Stocks traded	Close price	Change on day
Wal-Mart	5,160,200	26¾	+⅛
Bay Network	4,089,400	28⅜	-⅜
Sundstrand	3,757,700	34	-¼
K-Mart	3,505,800	11⅜	-----
Home Depot	3,352,900	55	+3
Pepsico	2,940,100	39⅜	-⅛
Northrop Gr	2,923,300	65¾	+2½
Premark Intl	2,742,000	17¾	+1
Federal Nti	2,648,500	31½	+⅜
Utd Health	2,413,500	53¾	-2½

■ TRADING ACTIVITY

● Volume (million)	Jun 4	Jun 3	May 31
New York SE	386.586	316.936	350.642
Amex	25.540	22.476	28.532
NASDAQ	663.498	541.333	627.531
NYSE			
Issues Traded	3,131	3,144	3,142
Rises	1,433	990	1,071
Falls	903	1,294	1,235
Unchanged	795	860	836
New Highs	112	65	88
New Lows	22	25	20

INDEX FUTURES

	Open	Sett Price	Change	High	Low	Est. vol.	Open Int.
■ CAC-40 (200 x Index)							
Jun	2098.0	2098.0	+2.0	2104.0	2090.0	8,057	53,129
Jul	2093.5	2095.5	+2.0	2099.0	2092.5	24	6,365
■ DAX							
Jun	2551.0	2553.5	-	2560.5	2549.5	11,405	-
Sep	2570.0	2572.0	-1.0	2577.0	2569.5	1,006	-
■ OMX							
Jun	1578.00	1576.50	-2.75	1588.50	1576.50	3,309	16,349
Jul	1592.50	1591.00	+9.00	1594.50	1581.00	76	1,253
■ SOFFEX							
Jun	3547.0	3549.0	+12.0	3553.0	3538.5	3,489	29,595
Jul	3548.0	3553.0	+14.0	3566.0	3546.5	54	2,692

■ S&P 500	Open	Latest	Change	High	Low	Est. vol.	Open Int.
Jun	673.25	674.25	+1.05	675.00	672.60	66,624	154,525
Sep	679.00	680.20	+1.16	680.80	678.70	7,810	36,989

■ Nikkei 225	Open	Sett price	Change	High	Low	Est. vol.	Open Int.
Jun	21960.0	21850.0	-20.0	22020.0	21780.0	25,725	239,796
Sep	22020.0	21950.0	+10.0	22090.0	21860.0	19,555	121,741

Open interest figures for previous day.

** Sat Jun 1 : Taiwan Weighted Price 5983.39; Korea Comp Ex 907.98. Base values of all indices are 100 except: Australia All Ordinary and Mining - 500; Austria Traded, BEL20, HEX Gen., MIB Gen., BVL 30, SBF250, CAC40, Euro Top-100, ISEQ Overall; Toronto Comp./Metals & Minerals and DAX - all 1,000; JSE Gold - 255.7; JSE 20 Industrials - 264.3; NYSE All Common - 50 and Standard and Poor's - 10. §§ Montreal. ♦ Toronto. (c) Closed. (u) Unavailable. ‡ IBIS/DAX after-hours Index: Jun 5 - 2561.03 +0.61.

† Correction. * Calculated at 15.00 GMT. ● Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation. ♦ The DJ Ind. Index theoretical day's highs and lows are the averages of the highest and lowest prices reached during the day by each stock whereas the actual day's highs and lows (supplied by Telekurs) represent the highest and lowest values that the index has reached during the day. (The figures in brackets are previous day's). ¥ Subject to official recalculation.

■ TOKYO - MOST ACTIVE STOCKS: Wednesday, June 5, 1996

	Stocks Traded	Closing Prices	Change on day
Kanematsu	18.3m	720	+3
Fuji Hvy Inds	6.2m	497	+1
Mitsui Mining	4.7m	630	+35
Ibiden	4.3m	1010	+35
Kobe Steel	4.1m	306	+9
Nippon Soda	3.9m	919	+35
Showa Ele Wire	3.5m	631	+7
Nagasakiya	3.3m	886	-49
Toyota Motor	3.3m	2540	+30
Matsushita E Ind	2.8m	1870	+10

NEW YORK STOCK EXCHANGE PRICES

4 pm close June 5

1996 High	Low	Stock	Div	Yld %	P/E	Sls 100s	High	Low	Close Quote	Chng Prev. Close
23¾	19⅛	AAR	0.48	2.2	23	146	21¾	21	21¾	+¼
48⅛	38⅜	AMP	1.00	2.4	20	6525	41¼	40⅞	41¼	+¼
97½	69	AMR			23	3052	94½	93⅝	94⅜	+½
50½	37⅜	ASA	1.80	4.2	28	977	43⅞	42⅞	42⅞	-⅞
44¾	36⅛	AbbotL	0.96	2.2	19	14222	43⅞	42⅝	43⅞	+1⅛
17¼	13⅜	Abitibi Pr x	0.40	3.0	6	230	13½	d13⅜	13½	+⅛
38¼	27	ABM Ind	0.70	1.9	19	35	u38¼	37½	37⅜	-⅛
17⅝	13⅞	AcptIncals			46	342	u17⅝	17½	17⅝	+⅛
50⅜	37¾	ACE Ltd	0.56	1.2	10	1246	46¼	44½	45	-1¼
9⅞	9⅛	ACM Gvt In y	0.90	9.2	8	307	d9⅞	9⅝	9¾	-⅛
7⅞	6¾	ACM GvOpp x	0.57	8.4		344	6⅞	d6¾	6¾	
7¼	6¼	ACM Gvt Sp x	0.66	10.6		734	6⅜	d6¼	6¼	
9⅛	8¼	ACM Gvt Se z	0.90	10.6		126	8⅝	8½	8½	-⅛
8½	6¾	ACM Man x	0.90	10.0		156	9	8⅞	9	-⅛
30¾	16½	AcmeCkr	0.52	1.7	7	563	29⅞	29¾	29¾	
13⅞	6⅛	Acme Elec			64	685	12⅜	11½	11⅝	-⅞
32½	27¾	Acordia x	0.80	2.5	19	10	32⅛	31⅞	32⅛	+¼
21⅝	12	Acuson			82	1623	18⅜	18⅛	18¼	-⅛
18½	18⅜	Adams Expr	1.66	8.6	0	238	19⅜	19¼	19¼	
21¼	16⅛	AdvMic			7	4343	17⅝	17¼	17⅝	+⅛
11⅛	8½	Advest Grp	0.16	1.5	7	36	10¾	10⅝	10⅝	-⅛
26⅛	9⅛	Advo Inc	0.10	0.9	61	802	11	10⅝	11	+⅛
50⅜	41½	Aegon	1.19	2.5	15	46	48¾	48½	48½	
6¾	3½	Aeroflex			4	161	6⅜	6⅛	6¼	
78⅛	66⅝	AetnaL	2.76	3.7	19	2024	73⅞	73⅝	73¾	-⅛
33	28¾	Aflac	0.40	1.3	12	3874	30	29⅜	30	+¼
20⅜	17⅜	AGL Res	1.08	6.0	15	253	17⅞	17⅝	17¾	
27	21¼	Ahmasn	0.88	3.3	7	6826	u27	26½	27	+⅜
60⅞	50⅜	AirPrC	1.10	1.9	16	1739	59⅜	59	59⅜	-⅛
28⅜	23½	Airbee Frt	0.30	1.2	22	470	24⅜	24⅝	24⅝	
22½	15½	Airgas Inc			34	621	21⅞	20⅝	20¾	-⅛
18⅞	15	Airlease	2.00	11.9	10	48	16⅞	16⅝	16¾	-⅛
32⅝	26⅝	AirTch			104	7029	31⅜	30⅝	31¼	
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- B -

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- C -

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- D -

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- E -

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- F -

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- G -

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4 pm close June 5

NYSE PRICES

1996 High	Low	Stock	Div.	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Chng Prev. Close
Continued from previous page										
20⅜	13⅛	SciAtl x	0.06	0.3	47	457	18¾	18⅜	18⅝	+⅛
21	17	Scitex	0.10	0.5	12	5	20¼	20¼	20¼	
45⅛	36⅛	Scripps x	0.52	1.2	26	1061	44¾	44¼	44¾	+½
18⅛	14½	ScudNwAsF	0.02	0.1		175	14⅞	14¾	14¾	-⅛
12½	11	ScuddrNEuF	0.16	1.3		60	12⅜	12¼	12⅜	+⅛
20½	16	SeaCnB	0.70	3.5	2	5	20¼	20¼	20¼	-¼
16	15	SeaC1.4625	1.46	9.6		7	15¼	15¼	15¼	
67¼	44¾	S'gate			22	9173	59	57⅜	57⅝	-1¼
38⅜	31¾	Seagram	0.60	1.7	24	4071	35⅜	35	35⅜	+⅛
24⅝	17⅛	SeagulEn			14	573	22⅜	21¾	21⅞	-⅜
36⅛	26	Sealed Air			26	707	35⅞	35⅜	35⅞	+⅜
53⅛	38¼	SearsR x	0.92	1.8	15	9710	52	51⅜	51¾	+¼
22⅜	19¼	SecCapStr	1.24	5.5	22	470	u22⅜	22¼	22⅜	
13	11⅞	Seligm Sel	0.84	6.6		70	12¾	12⅝	12¾	+⅛
23¾	13⅝	Sensormat	0.22	1.2	16	3646	18⅝	17⅞	18⅝	+¾
41	29½	SequaA	0.60	1.5	104	40	40¼	39⅝	39⅝	-⅝
43	30	SequaB	0.50	1.2	113	3	u43	43	43	+¼
59½	38⅞	ServCp	0.48	0.8	30	5068	u59½	58⅜	58⅞	+¾
33½	29⅛	SvMstr	1.02	3.1	14	414	32⅞	32⅝	32⅞	
6	4½	ServMerch			11	4590	5⅞	5½	5¾	+¼
48¼	26½	SGSThm			9	1262	41⅞	41¼	41½	-¼
15⅛	10⅝	Shaw Ind	0.30	2.3	40	1120	13⅜	13⅛	13¼	
12⅞	10⅝	Shelby Wil	0.28	2.4	14	34	11⅝	11½	11½	

- T -

- U -

- V -

- W -

- X-Y-Z -

1996 High	Low	Stock	Div.	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Chng Prev. Close
162½	119⅝	Xerox	3.48	2.1	41	2362	u162½	158⅝	162½	+3¾
47⅞	39¾	Xtra Corp	0.72	1.5	16	128	47⅛	46⅝	47⅛	+½
25¾	21¼	Yankee Egy	1.30	6.0	12	44	21⅞	21⅝	21¾	-¼
53¾	43⅞	York Int	0.36	0.7	23	369	53⅜	53¼	53¼	
3⅞	3	Zapata	0.14	3.9	9	130	3¾	3½	3⅝	
25¾	5⅞	ZnthEl			7	2304	14¼	13⅞	13⅞	-⅛
28	21⅛	Zenith Nat	1.00	3.6	39	82	27⅞	27¾	27¾	
7⅞	6½	Zenix Inc	0.72	10.7		89	6⅞	6¾	6¾	-⅛
22⅜	15⅛	Zero	0.12	0.5	20	484	u22⅜	21⅞	22⅜	+1⅛
23¼	18⅞	Zurn Ind	0.40	1.9	15	1239	20⅞	20½	20⅞	+⅜
11⅜	10¾	Zweig Fund	1.12	10.2		121	11⅛	11	11	
9	8½	Zweig Tot	0.84	9.9		332	8⅝	d8½	8½	

Price data supplied by Telekurs

Yearly highs and lows for NYSE reflect the period from Jan 1 1995. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration. Sales figures are unofficial.

d-new yearly low. P/E price-earnings ratio. sls-sales. u-new yearly high. x-ex-dividend or ex-rights. yld-yield. z-sales in full.

Dealings suspended.

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AMEX PRICES

4 pm close June 5

NASDAQ NATIONAL MARKET

4 pm close June 5

- A - - B - - C - - D - - E - - F - - G - - H - - I - - J - - K - - L - - M - - N - - O - - P - Q - - R - - S - - T - - U - - V - - W - - X - Y - Z -

AMERICA

Dow flat as equities play waiting game

Wall Street

US share prices were flat in early trading, mirroring the sentiment on the bond and currency markets as investors awaited tomorrow's figures on May employment, *writes Lisa Bransten in New York.*

At 12:30pm, the Dow Jones Industrial Average was 2.96 softer at 5,662.76. The Standard & Poor's 500 edged up 0.38 to 672.94 and the American Stock Exchange composite rose 0.34 to 607.78.

The technology-rich Nasdaq composite added 0.48 at 1,244.16. Volume on the New York Stock Exchange at mid-session came to 215m shares.

Financial markets had been jolted by surprisingly strong employment figures in each of the past three months, so investors remained reluctant to change their position ahead of tomorrow's figure. Also, recent economic data had been mixed, leaving Wall Street economists divided about whether the Federal Reserve might change interest rates later this year.

America Online tumbled $5¾ or 10 per cent to $47⅞ on negative moves by analysts at Cowen & Co and Montgomery Securities, *two US investment banks.* The analyst at Montgomery downgraded the stock to "hold" from "buy", and the Cowen analyst lowered his estimate of subscriber growth at the online service.

Bally Entertainment added $1¼ or 5 per cent at $25¾ on renewed speculation that the company was in merger talks with Hilton Hotels. The latter added $2⅞ at $112¾.

Price/Costco rose $⅜ or 3 per cent to $20⅞. The membership warehouse club announced a 27 per cent increase in net income, but at the same time Calvin Klein Jeanswear – which is a division of Designer Holdings – filed suit against the retailer, claiming it had sold counterfeit goods marked as Calvin Klein products.

ValuJet lost $⅝ or 4 per cent to $13⅜ after Standard & Poor's announced that it was lowering its corporate rating of ValuJet debt to BB- from BB. Since the May 11 crash of a ValuJet DC-9 that killed all 110 people on board, shares in the discount carrier have fallen $4⅝, or more than 25 per cent.

Cephlon slid $3⅞ or 13 per cent to $23¼ and Chiron lost $4¼ or 4 per cent at $99⅞ after analysts from Smith Barney repeated their belief that one of the companies' new drugs would not be approved by the Food and Drug Administration.

Canada

Toronto was pressured by a sinking gold shares sector as the bullion price tumbled.

The TSE 300 composite index was 24.11 lower by noon at 5,200.40 in trading volume of 45.4m shares.

Arequipa Resources, down 40 cents at C$24.85, was again in focus. The gold prospector weakened C$6.95 to C$25.25 on Tuesday after it encountered drilling problems at its Peruvian project.

Inco retreated 20 cents to C$44.40 as it said that the close of its C$4.3bn deal to acquire Diamond Fields Resources had been delayed further. Diamond Fields, which owns 75 per cent of the Voisey's Bay deposit in Labrador, was C$1.10 cheaper at C$38.85.

SOUTH AFRICA

Worries about the political and economic outlook held Johannesburg back in subdued trade, with gold shares also bearing the brunt of sharply lower precious metals prices, which left the sector index 1.8 per cent down.

Analysts said institutions were largely absent from the market, although they hoped that the IBCA foreign currency rating for South Africa – unchanged at BB – would provide some support today.

The overall index declined 23.7 to 6,814.8, industrials retreated 22.5 to 7,999.1 and golds fell 36.9 to 1,976.3.

EUROPE

Spotlight on losers as Paris holds firm

Share prices swung both ways in PARIS, with the spotlight on the losers, although the CAC-40 index rose by a token 4.35 to 2,115.35, in turnover of FFr4.6bn.

Canal Plus fell heavily, shedding FFr64, or 6.5 per cent, to FFr1,199 on reports that its German digital satellite television alliance with BSkyB, Bertelsmann and Havas was on the brink of collapse. Havas fell FFr4.10 to FFr433.50.

Carrefour, the hypermarket retailer which had risen by more than 30 per cent this year in a rerating, fell FFr45 to FFr2,742, after a FFr69 drop on Tuesday. Dealers said a big broker had triggered a wave of profit-taking when it adjusted its recommendation on the stock to "moderate buy" from "buy" after the long rally.

The day's winners included Rhône-Poulenc, FFr3.30 higher at FFr131. London analysts suggested that it might be considering selling part of its stake in the US pharmaceuticals company Rhone-Poulenc Rorer. Bic, the pen and lighter maker, soared FFr45 to FFr640, after a meeting between company officials and fund managers hosted by the broker Bourse SGE Delahaye.

FRANKFURT had a muted run into today's holiday. Turnover edged up from DM6.9bn to DM7.7bn, but was flat after hours as the Dax index closed 0.61 firmer at an Ibis-indicated 2,551.03.

Higher US car sales for Volkswagen and Audi helped to extend VW's recent run, the shares going ex-dividend but rising by a net DM8.05 to DM549.50. SGL Carbon surfed on its New York quotation and ended DM9 ahead at DM189.

Other winners included Henkel and Wella prefs, the former up DM10.50 at DM583, as the market suspended Tuesday's disbelief in the Henkel family's conversion to shareholder value; Wella jumped DM45 to DM895 after Mr Joerg von Craushaar, its management board chairman, forecast a 25 per cent gain in operating earnings this year.

Deutsche Bank suffered for its contribution of DM550m to the DM1.06bn KHD rescue plan, falling 93 pfgs to DM71.56. Mr Mark Hoge of Merrill Lynch was troubled by the bank's participation in the latest of a series of rescue attempts. However, he added, less than half of the DM550m figure was likely to hit the bank's profit and loss account; it was small in relation to a DM36.5bn equity capitalisation; and Merrill maintained its buy recommendation on the stock.

ZURICH overcame early losses, although Roche and Nestlé, which had been sought ahead of their dividend payouts on Tuesday, were both marked sharply lower. The SMI index picked up 3.9 to 3,572 but Roche certificates fell SFr95 to SFr9,500 and Nestlé gave up SFr12 to SFr1,411.

Elektrowatt, the utility group, dropped SFr9 to SFr443 on half-year results and a larger than expected one-time write-off of SFr80m which was tied to problem property holdings in Switzerland.

Swissair picked up SFr8 to SFr1,218, as it raised its offer for the Alldera duty free retailing business in Britain to £160m, topping the offer of the rival bidder BAA. Analysts said the market continued to take heart from indications that the Swiss airline appeared intent on increasing its involvement in non-core, but air travel related, businesses.

Sandoz, SFr13 higher at SFr1,318, was seen profiting from rumours that Viag would make an offer for its MBT construction chemicals business. Adia remained on its upward track, advancing SFr8 to SFr318. SMH, strong in recent days, ran into profit-taking to close SFr24 down at SFr856.

Danzas jumped SFr70 to SFr1,450 on news that the transport group planned to co-operate in Europe with UPS.

MILAN reflected a dip in domestic bonds and, with investors largely overlooking a fall in inflation data for May, the Comit index gave up 1.12 at 661.92.

A L178 tumble to L5,326 in Stet, the telecoms holding company, was attributed to newspaper reports that the sell-off of the state's 61 per cent stake could be delayed to next year.

Pirelli moved forward L33 to L3,620 in further positive response to a meeting with analysts. Parmalat, Italy's largest quoted food group, advanced 3.1 per cent on strong foreign demand after the company told analysts on Tuesday night that it was optimistic about its rate of growth this year and saw annual sales up 28 per cent, with profits also on the rise. The shares gained L60 at L1,975.

AMSTERDAM scraped to a new record high, closing 2.08 better at 570.89, compared with last Friday's previous all-time peak of 570.09.

Unilever's Fl 4.40 rise to Fl 286.40, on the dollar and on talk of a UK broker's upgrade, boosted the index overall.

KLM weakened Fl 1.90 to Fl 59, as brokers noted that Tuesday's 16 per cent increase in net profits was boosted by the airline's revaluation of its stake in Northwest Airlines, of the US.

WARSAW was broadly lower, although gains by some index heavy stocks pushed the Wig 45.1 higher to 12,359.9 in light trade ahead of a public holiday today.

Bank Slaski roared 9.9 per cent higher to 216.5 zlotys on news that ING Group had raised its stake from 25.9 per cent to 33.15 per cent, paying 210 zlotys a share. ING said it expected to exercise its right to buy a further 20 per cent at the same price soon.

PRAGUE continued to recover from Monday's bout of nerves, when inconclusive election results drove the market sharply lower; the PX 50 index of blue chip stocks picked up 9.0, or 1.7 per cent, to 540.4.

Written and edited by William Cochrane and Michael Morgan

FT-SE Actuaries Share Indices

Jun 6					THE EUROPEAN SERIES			
Hourly changes	Open	10.30	11.00	12.00	13.00	14.00	15.00	Close
FT-SE Eurotrack 100	1684.26	1685.00	1684.76	1684.09	1684.45	1683.80	1684.25	1684.32
FT-SE Eurotrack 200	1728.17	1728.18	1728.84	1727.12	1728.84	1728.78	1727.82	1728.60
	Jun 4	Jun 3	May 31	May 30	May 29			
FT-SE Eurotrack 100	1681.26	1677.46	1687.06	1679.27	1682.60			
FT-SE Eurotrack 200	1727.74	1719.12	1734.86	1728.60	1722.47			

Base value 1000 (26/10/90) High/day: 100 - 1685.44; 200 - 1730.67 Low/day: 100 - 1683.18 200 - 1726.85 † Partial.

Mexican shares consolidate rally

Mexico City consolidated Tuesday's advance, which followed several sessions of losses, and which created enough momentum to override a rise in primary interest rates at the central bank's weekly auction of *Cetes*, or Treasury bills, late on Tuesday. In lunchtime trade, the IPC index was virtually flat, up just 1.80 points at 3,230.14 in quiet trade.

Among specific issues, B shares in the cement giant Cemex were 30 centavos higher at 29.55 pesos, while BCP shares of the steelmaker Hylsamex moved ahead 50 centavos to 32 pesos.

BUENOS AIRES marked time ahead of the US jobs data, due tomorrow, and as an absence of foreign demand kept the lid on domestic buying. The Merval index, which tumbled 3.3 per cent on Monday, and was flat on Tuesday, edged 1.41 higher to 582.07.

One analyst said that the market was taking advantage of a mini-cycle of negative news to take profits after two months of gains, and with volume so tight, prices were easily swayed.

EMERGING MARKETS: IFC WEEKLY INVESTABLE PRICE INDICES

Market	No. of stocks	Dollar terms: May 31 1996	% Change over week	% Change on Dec '95	Local currency terms: May 31 1996	% Change over week	% Change on Dec '95
Latin America	(247)	527.74	-0.9	+11.9			
Argentina	(31)	911.01	-1.5	+13.7	558,265.29	-1.6	+13.6
Brazil	(68)	352.96	+1.1	+16.6	1,318.19	+1.3	+18.7
Chile	(43)	707.42	-1.1	-5.5	1,159.29	-0.8	-5.0
Colombia[1]	(15)	623.03	-1.0	+4.2	1,183.81	-0.7	+12.8
Mexico	(65)	543.17	-2.8	+19.9	1,737.01	-2.6	+15.4
Peru[2]	(20)	210.18	+1.0	+6.6	310.57	+1.2	+11.8
Venezuela[3]	*(5)*	*538.04*	*-0.6*	*+60.9*	*5,813.26*	*-0.3*	*+122.7*
Asia	(631)	265.11	-0.6	+14.2			
China[4]	(23)	59.74	+2.9	+10.4	62.77	+2.9	+10.5
South Korea[5]	(145)	121.08	-2.0	-3.9	125.40	-1.2	-2.3
Philippines	(35)	317.70	+1.4	+22.4	401.99	+1.4	+22.2
Taiwan, China[6]	(83)	134.30	-0.1	+19.1	139.55	+0.8	+20.8
India[7]	(76)	100.02	+0.1	+24.5	124.44	-0.1	+24.0
Indonesia[8]	(44)	125.94	-0.3	+14.8	159.66	-0.2	+17.2
Malaysia	(123)	316.74	-1.5	+16.8	292.11	-1.1	+15.0
Pakistan[9]	(25)	299.43	+3.2	+23.4	474.91	+3.4	+26.0
Sri Lanka[10]	(5)	106.65	-2.7	+2.5	127.86	-2.8	+5.8
Thailand	(72)	374.82	+1.2	-0.3	376.82	+1.2	+0.2
Euro/Mid East	(238)	140.89	+3.0	-0.5			
Czech Rep	(5)	74.05	-0.6	+23.4	68.16	-0.6	+28.1
Greece	(47)	247.62	+2.5	+2.5	405.25	+1.6	+4.7
Hungary[11]	(8)	162.96	+0.4	+65.6	292.41	+0.0	+80.7
Jordan	(8)	174.17	-0.6	-5.7	259.98	-0.6	-5.7
Poland[12]	(22)	633.27	+1.1	+48.5	1,069.87	+0.6	+61.6
Portugal	(26)	126.46	+1.6	+9.2	137.02	+1.1	+15.3
South Africa[13]	(63)	236.59	+3.0	-8.3	212.99	+2.9	+9.6
Turkey[14]	(54)	130.40	+6.2	+24.8	4,816.42	+6.3	+61.1
Zimbabwe[15]	(5)	384.30	-0.8	+39.9	556.47	-0.8	+47.6
Composite	(1116)	302.34	+0.1	+8.6			

Indices are calculated at end-week, and weekly changes are percentage movement from the previous Friday. Base date: Dec 1988=100 except those noted which are: (1)Feb 1 1991; (2)Dec 31 1992; (3)Jan 5 1990; (4)Dec 31 1992; (5)Jan 3 1992; (6)Jan 4 1991; (7)Nov 6 1992; (8)Sep 28 1990; (9)Mar 1 1991; (10) Dec 31 1992; (11)Dec 31 1993; (12)Dec 31 1992; (13)Dec 31 1992; (14)Dec 31 1992; (15)Aug 2 1993; (16) July 2 1993.

Sri Lanka's stocks plumbed an eight-month low yesterday. Local investors were unable to escape from the pessimism generated by a series of setbacks, the latest of which was last week's power utility workers' strike which blacked out the island for three days. The all-share index closed 3.28 down at 639.57 although turnover jumped to SLRs47.1m from SLRs11m, reflecting continued overseas demand for blue chips, now viewed as inexpensive by some foreign investors.

Analysts noted that the index had fallen through important psychological support at the 650-point level, prompting selling by downbeat local investors who saw the way open for further declines. Dealers also pointed to poor first-quarter corporate results which, though widely anticipated, also had an adverse impact.

Local investors had been badly shaken by a series of events which began with the **January 31 Tamil separatist bomb blast at the Central Bank; this was followed by an unsuccessful attack on the Colombo port, daily eight-hour power cuts since mid-March after intermonsoon rains failed and water levels in the country's reservoirs began to plunge and, finally, last week's power workers' strike.**

ASIA PACIFIC

Karachi up 1.6% with big blue chips in lead

Demand for the telecoms utility *PTCL lifted sentiment* in KARACHI, but Pakistan State Oil, too, outperformed by a street as foreign buyers anticipated a rise in oil product prices in the 1996/97 budget.

The KSE 100 index rose 26.76, or 1.6 per cent, to 1,749.87. PTCL by PRs2.15, or 5.3 per cent, to PRs42.40 on stakebuilding plans by foreign telecoms majors, and Pakistan State Oil by PRs26, or 6.5 per cent, to PRs424.

PSO has outperformed the market by 140 per cent since September 1994; the government has raised the prices of petroleum products twice already in recent months.

Tokyo

The dollar's rise to above Y109 and the overnight rally on *Wall Street* were *good for sentiment*, but equities were mixed after profit-taking by investment trusts and other domestic institutions, *writes Emiko Terazono in Tokyo.*

The Nikkei 225 average gained a net 23.31 at 21,881.43 after extremes for the day of 21,784.36 and 21,985.93. Yen depreciation lifted export oriented high-technology, car and shipping companies before afternoon profit-taking came in at higher levels.

Volume totalled 314m shares, against 327m. Some institutional investors reshuffled their portfolios, but most domestic investors remained inactive ahead of tomorrow's release of the Bank of Japan's tankan, or quarterly survey of business confidence, which is expected to show a moderate improvement.

The Topix index of all first section stocks eased 0.45 to 1,675.10 and the Nikkei 300 by 0.01 to 310.89. Rises outnumbered declines by 532 to 487, with 193 issues unchanged.

In London the ISE/Nikkei 50 index *gained 0.87 at 1,467.53.*

Shippers, which settle their accounts in dollars, saw Mitsui OSK Lines up Y6 at Y364.

Among exporters, Sony rose Y90 to Y6,960 and Matsushita Electric Industrial firmed Y10 to Y1,870. Some semiconductor related shares were lower on profit-taking, NEC losing Y10 at Y1,220 and Fujitsu slipping Y8 to Y992.

Electric wire makers rallied on reports that a Chinese telecom operator was seeking the participation of foreign companies in an underwater optical cable network project. Fujikura added Y15 at Y885 and Showa Electric Wire and Cable Y25 at Y631.

Individual investors dabbled in speculative favourites. Kanematsu, the trading house, hardened Y3 to Y720 and Copal, a camera shutter maker, moved ahead Y70 to Y1,160.

Large shipbuilder and steel issues eased on profit-taking. Nippon Steel dipped Y6 to Y357 and Mitsubishi Heavy Industries lost Y6 to Y927.

In Osaka, the OSE average rose 56.39 to 23,192.10 in volume of 23.1m shares.

Roundup

The unveiling of economic policy objectives by the new Indian government allowed BOMBAY to recoup early losses.

The 13-party United Front government, sworn in on Saturday, promised an open door policy towards foreign investment in key areas, and the BSE 30-share index ended 19.59 higher at 3,813.05 after touching 3,760.44 in early trading.

SEOUL dabbled in small and medium-capitalisation stocks, and sporting goods makers rose on hopes that they would be boosted by the 2002 soccer World Cup games to be held in South Korea and Japan.

The sporting hopes, Kukje and Jin Woong, went limit high, up Won360 and Won420 respectively to Won6,500 and Won 7,570, as the composite index rose 3.84 to 913.27.

BANGKOK dropped 1.1 per cent on selling of finance company shares, due to worry over a central bank move to tighten their loan loss provision requirements.

The SET index fell 14.18 to 1,276.61 in Bt4.9bn turnover, with Thailand's largest finance house, Finance One, down Bt4 to Bt127 and National Finance off Bt3.50 at Bt98.50.

SHANGHAI's A share index closed 49.198, or 7.25 per cent, higher at 727.422 but the Bs declined 0.700, or 1.45 per cent, to 47.717.

The A index gained on institutional buying of Pudong shares following the recent decision by the Shanghai government to move all major city finance and commodity markets to the Lujiazui finance and trade zone. The B index *fell as Shanghai Huili Building* Materials, issuing 80m new shares, said that its profits had dropped 40 per cent in 1995.

FT/S&P ACTUARIES WORLD INDICES

The FT/S&P Actuaries World Indices are owned by FT-SE International Limited, Goldman, Sachs & Co. and Standard & Poor's. The Indices are compiled by FT-SE International and Goldman Sachs in conjunction with the Faculty of Actuaries and the Institute of Actuaries. NatWest Securities Ltd. was a co-founder of the Indices.

NATIONAL AND REGIONAL MARKETS	TUESDAY JUNE 4 1996								MONDAY JUNE 3 1996					DOLLAR INDEX		
Figures in parentheses show number of lines of stock	US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	52 week High	52 week Low	Year ago (approx)
Australia (79)	204.63	0.0	195.74	141.02	162.96	170.31	0.3	4.33	204.65	195.85	140.08	162.41	169.83	212.18	162.68	165.28
Austria (25)	193.97	-0.6	185.54	133.67	154.47	154.39	-0.2	1.81	195.01	186.63	133.48	154.76	154.68	199.28	168.11	197.90
Belgium (27)	*209.85*	*-0.1*	*200.73*	*144.62*	*167.12*	*162.92*	*0.3*	*4.09*	*209.98*	*200.95*	*143.73*	*166.64*	*162.50*	*215.87*	*186.06*	*196.57*
Brazil (28)	168.22	-0.1	160.91	115.93	133.96	309.11	-0.1	2.10	168.31	161.07	116.21	133.57	309.28	171.06	123.97	143.24
Canada (99)	164.80	-0.2	157.64	113.57	131.24	163.32	-0.2	2.33	165.12	158.02	113.02	131.04	163.72	165.12	134.14	140.66
Denmark (30)	292.69	-0.2	279.98	201.71	233.09	235.39	0.1	1.91	293.23	280.62	200.71	232.71	235.10	305.17	275.66	282.56
Finland (23)	199.41	0.0	190.75	137.43	158.80	196.30	-0.1	2.54	199.44	190.87	136.52	158.28	196.56	276.11	171.73	212.80
France (97)	195.63	-0.6	187.13	134.82	155.79	159.15	-0.2	3.01	196.70	188.25	134.64	156.11	159.54	198.39	167.70	187.26
Germany (60)	168.32	0.1	161.01	116.00	134.04	134.04	0.5	1.87	168.06	160.85	115.05	133.39	133.39	174.38	155.66	157.69
Hong Kong (59)	433.63	0.3	414.80	298.84	345.33	430.74	0.3	3.30	432.36	413.78	295.94	343.12	429.47	451.19	346.81	374.66
Ireland (16)	283.65	0.3	271.33	195.48	225.89	251.99	0.3	3.40	282.79	270.63	193.57	224.43	251.15	283.65	228.88	230.53
Italy (59)	82.44	0.3	78.86	56.82	65.65	95.15	0.5	2.31	82.18	78.64	56.25	65.22	94.73	84.53	67.22	75.32
Japan (481)	154.19	0.3	147.49	106.26	122.79	106.26	1.0	0.72	153.72	147.11	105.22	121.99	105.22	164.68	137.75	153.60
Malaysia (107)	554.05	0.0	529.98	381.83	441.22	534.16	0.2	1.69	553.98	530.16	379.19	439.64	533.28	585.08	425.77	557.57
Mexico (18)	1263.47	1.5	1208.56	870.73	1006.17	10261.10	0.9	1.38	1245.21	1191.67	852.32	988.20	10173.39	1326.65	791.98	971.95
Netherland (19)	296.96	-0.3	284.06	204.65	236.49	232.40	-0.1	3.09	298.01	285.19	203.98	236.50	232.51	298.67	246.79	251.00
New Zealand (15)	77.73	-0.7	74.36	53.57	61.90	60.76	-0.4	4.52	78.24	74.88	53.56	62.09	61.02	86.49	76.26	82.54
Norway (35)	252.53	0.6	241.56	174.03	201.11	224.32	0.9	2.02	251.04	240.25	171.83	199.23	222.40	255.75	221.20	222.58
Singapore (44)	412.26	-0.2	394.35	284.11	328.31	267.59	-0.1	1.42	419.03	395.27	282.71	327.78	267.99	465.21	356.81	410.10
South Africa (45)	361.18	-0.6	345.49	248.91	287.63	345.39	0.0	2.10	363.25	347.64	248.64	288.28	346.37	437.76	338.91	346.54
Spain (37)	176.76	0.1	169.13	121.13	139.97	171.96	0.7	3.23	175.58	168.01	120.17	139.33	170.83	179.85	146.15	148.30
Sweden (48)	360.08	1.7	344.44	248.15	286.75	356.96	1.5	2.27	353.91	338.69	242.24	280.86	351.73	360.08	259.66	263.65
Switzerland (36)	232.93	0.0	222.81	160.53	185.50	181.54	0.6	1.63	232.96	222.94	159.46	184.88	180.43	252.34	191.24	196.63
Thailand (46)	*177.41*	*-0.3*	*169.70*	*122.26*	*141.28*	*174.48*	*-0.3*	*1.89*	*177.97*	*170.32*	*121.82*	*141.24*	*174.93*	*193.95*	*146.74*	*174.91*
United Kingdom (201)	236.16	0.3	225.90	162.75	188.07	225.90	0.3	4.10	235.36	225.23	161.09	186.77	225.23	237.43	210.29	215.84
USA (627)	274.06	0.8	262.16	188.87	218.25	274.06	0.8	2.15	271.93	260.24	186.13	215.80	271.93	276.24	215.77	217.89
Americas (772)	250.36	0.8	239.51	172.55	199.40	210.47	0.7	2.18	248.52	237.84	170.11	197.23	208.92	252.40	197.68	198.74
Europe (715)	210.24	0.1	201.11	144.89	167.43	184.60	0.3	3.05	209.94	200.91	143.70	166.61	184.00	211.35	187.21	189.62
Nordic (138)	306.49	1.1	293.18	211.22	244.08	267.62	1.0	2.23	303.17	290.13	207.51	240.60	264.97	306.49	250.82	259.40
Pacific Basin (831)	167.32	0.3	160.05	115.31	133.25	117.42	0.8	1.17	166.90	159.72	114.24	132.45	116.45	177.01	148.86	163.80
Euro-Pacific (1546)	185.10	0.2	177.06	127.56	147.41	142.87	0.6	2.06	184.73	176.78	126.44	146.60	142.03	190.57	166.51	174.30
North America (726)	267.29	0.8	255.68	184.20	212.86	266.61	0.8	2.16	265.30	253.89	181.59	210.54	264.63	269.33	211.12	213.10
Europe Ex. UK (514)	191.14	0.0	182.84	131.73	152.22	159.82	0.3	2.47	191.08	182.86	130.79	151.64	159.27	192.67	168.40	170.97
Pacific Ex. Japan (350)	*289.17*	*0.1*	*276.61*	*199.28*	*230.28*	*249.00*	*0.2*	*3.07*	*288.88*	*275.57*	*197.61*	*229.35*	*248.55*	*296.68*	*248.59*	*259.91*
World Ex. US (1736)	186.47	0.2	178.37	128.51	148.50	147.41	0.6	2.07	186.13	178.13	127.40	147.72	146.59	191.55	167.36	174.87
World Ex. UK (2162)	211.36	0.5	202.18	145.66	168.32	179.51	0.7	1.91	210.41	201.37	144.02	166.99	178.28	213.05	180.73	186.08
World Ex. Japan (1882)	246.31	0.5	235.61	169.75	196.15	233.44	0.6	2.51	245.13	234.59	167.79	194.54	232.15	246.49	205.87	207.65
The World Index (2363)	213.60	0.4	204.32	147.20	170.10	183.88	0.7	2.10	212.66	203.51	145.56	168.76	182.88	214.70	188.83	187.78

Latest prices were unavailable for this edition.

■ **Social issues:** by Angus Foster

The tip of the iceberg

Problems have been exacerbated by bad government and uneven wealth distribution

Despite fine speeches and a few promising initiatives, Brazil's roll call of human rights outrages continues to lengthen. After Carandiru (where 111 prisoners were shot dead by police) and Candelária (where street children were assassinated by off-duty policemen), the country has been shocked in the past 12 months by events at Corumbiara and Carajás, when police gunned down more than 30 landless farmers.

These massacres represent just the most visible evidence of Brazil's enormous social problems, which have been compounded by inequality and years of bad government.

Even the most optimistic Brazilians admit that tackling the difficulties will take a very long time.

> Brazil's richest 10 per cent earn 43 times more than the poorest 10 per cent

"Solving social problems cannot be done in a populist way, it has to be long-term, through things like investing in education. It all takes a long time to show through," says Marco Maciel, the Brazilian vice-president.

In some respects, Brazil's social problems are to be expected in a big, developing country. Rapid urbanisation since the 1950s threw millions of families into the cities, where jobs and basic services such as health and sanitation were scarce.

The economic problems of the 1980s left many state and city governments without the cash needed to deal with the increased demand on school and hospital places. Illiteracy among the over 15-year-old population has been cut in half since 1960 but nevertheless remains high at 20 per cent.

Regular health scandals, such as one that took place that earlier this year when an infected dialysis machine killed more than 40 people in the state of Pernambuco, show the precariousness of the public health system.

But Brazil's most glaring social problem is its unfairness. According to the World Bank, Brazil is one of the most unequal societies in the world. Last year, the poorest 50 per cent of the population received just 12 per cent of income, while the richest 20 per cent received 63 per cent.

The poor's share of income has fallen consistently since 1960 as successive governments have been unwilling or unable to put in place policies aimed at redistributing wealth.

Paulo Levy, a Rio de Janeiro economist, says much of the distortion stems from the very rich. Brazil's richest 10 per cent earn 43 times more than the poorest 10 per cent. In the US, where wealth inequality is considered high by world standards, the ratio is just 24 times.

President Fernando Henrique Cardoso, a former left of centre sociologist, likes to claim that Brazil is no longer underdeveloped, merely unjust. His background and apparent determination to tackle social problems led to enthusiasm about the potential for change when he took office in January last year.

Eighteen months later, however, Mr Cardoso's government has come under attack for doing too little. Its campaign to help society's most under-privileged members has been undermined by high-level resignations from former supporters who claim that the government was not committed to the scheme.

Most critics claim Mr Cardoso's political alliances in Congress, especially with the right wing Liberal Front (PFL), have constrained his actions on the social front. Some say that Mr Cardoso, as a wealthy member of Brazil's élites, was always more interested in writing about social problems than solving them.

There have been some signs of progress. The latest massacre of landless farmers, when police killed at least 19 people in the state of Pará, infused a new urgency into the government's timid land reform programme. Mr Cardoso wants to settle 280,000 landless families during his four-year mandate, even though rural unions say the demand for land is several times higher.

A new emphasis on primary education is also winning international support, even though the effects will take many years to show. The government hopes to channel more resources into primary schools, which in the past often lost out to well-funded universities.

It also hopes that by better spending and better training of teachers, the quality of Brazil's schools could rise rapidly. In many areas, especially in the cities, primary school class sizes would fall dramatically if children were better taught and did not need to repeat school years.

At present, the average child takes 12 years to complete the eight years of primary education.

A national programme for human rights, announced last month and praised by several non-governmental organisations, contained important provisions for tackling short-term problems such as urban violence, police brutality and forced labour.

As with so many other aspects of Brazil, however, laws and programmes are ineffective without proper implementation. Especially in poorer states in the north and north-east, judiciaries are controlled by local politicians and often frustrate rather than co-operate with federal authorities.

Sign of trouble: the coffins of landless peasants who were killed by police in April this year

Dida Sampaio/AE

■ **Environment:** by Leslie Crawford

Clean up gets under way

Participation in global trade has proved a catalyst for the adoption of cleaner processes

Cubatão, a vast industrial complex near the port of Santos, was once the epitome of Brazil's environmental disaster. Acid rain killed the Atlantic rainforest, oil leaks and toxic waste clogged rivers and mangroves, the air was unbreathable and children were born with horrific deformities.

The wasteland, which concentrates 16 per cent of Brazil's heavy industry, will never be a Garden of Eden, but a serious effort is under way to repair the damage caused by decades of unfettered industrial activity.

The clean-up of Cubatão, backed by $400m of loans from the Inter-American Development Bank and Brazil's National Development Bank (BNDES), indicates a growing environmental awareness among Brazilian industrialists. "The opening of the Brazilian economy has been excellent news for the environment," says Dalia Maimon, a professor of environmental economics at the University of Rio de Janeiro. Privatisation and environmental barriers to international trade, she says, have proved a more effective catalyst for the adoption of cleaner industrial processes than the ineffective – and unenforceable – legislation that exists.

"It is positive that industry is responding to market signals at a time when the Brazilian state is less and less capable of undertaking the huge policing effort required by the old command economy," Ms Maimon says.

Isaura Frondizi, a director at BNDES's environmental department, says the bank has lent R$1.6bn for environmental projects over the past five years. "The biggest demand," she says, "has come from recently-privatised steel and petrochemical companies, which accumulated big environmental liabilities under state ownership."

Competition for scarce capital has also forced Brazilian companies to incorporate environmental planning into their investments. BNDES, virtually the only source of long-term finance in Brazil, now demands Environmental Impact Assessments to consider project financing. Commercial banks are beginning to follow suit.

Last November, BNDES and other state-owned regional development banks, which together lend R$22bn a year, signed a "Green Protocol" to give priority to environmentally-sustainable industrial and agricultural projects. The banks also committed themselves to withholding finance from companies which fall foul of Brazil's environmental authorities. Ibama, the Brazilian Institute for the Environment and Renewable Natural Resources, estimates unpaid fines for environmental offences total more than $400m.

Ms Frondizi says her bank will no longer finance activities such as the pig-iron industry in state of Pará, which uses charcoal made from the illegal felling of the Amazon rain forest. Logging and saw-mills are also ineligible for BNDES finance. "We are only backing sustainable forestry projects," she says.

But the environmental permits needed to set up most industrial businesses in Brazil have created a bureaucratic log-jam often over-ruled by politicians or industrial groups when jobs or important investments are at stake.

At São Carlos, a small town in São Paulo state, a heated legal battle is being fought between Volkswagen and environmental groups which allege the German carmaker is building a $250m plant without the required permits.

"The local authorities waved the need for environmental permits because they so desperately wanted Volkswagen to locate in São Carlos," says Marcelo Pereira de Souza, a university professor who helped initiate legal action against Volkswagen. "The company is very welcome in São Carlos, as long as it complies with the law." A spokesman for Volkswagen would not comment on the dispute.

BNDES officials admit companies, often frustrated by Brazil's sluggish bureaucracy, may be tempted to jump the gun. "There are not enough qualified people to process all the documentation," Ms Frondizi says. "It can take more than two years for environmental permits to be granted. We need a more agile service to accompany the pace of investments."

At Cetesb, the environmental protection agency, for São Paulo, a state which produces almost half of Brazil's output, director Nelson Nefussi agrees that Brazil's legislation is cumbersome and that fines do not always act as a deterrent. "I would like to move to a system of self-assessment, where the onus would be on industries to monitor themselves, under the threat of far heavier penalties against offenders," he says.

Brazil's privatisation programme and growing foreign investment have also put environmental issues on the industrial agenda. "Privatisation and foreign acquisitions are forcing Brazilian corporations to factor the cost of pollution into the value of their assets," says Cristina Knapp, an environmental consultant with Dames & Moore. "The cost of dealing with environmental liabilities has become a determining factor in the price of a sale," she says.

The beneficial influence of foreign investors, however, has yet to be felt by the broader universe of small and medium-sized companies, many undercapitalised and without access to environment-friendly technology.

"Small companies need special help," says Ms Maimon in Rio de Janeiro. "They need to be taught how environmental management can help them cut costs, and how eco-activities such as recycling represent business opportunities." With Sebrae, a government agency, Ms Maimon has set up training courses for small businesses on environmental management that she says more than 1.500 companies will attend this year.

The gulf widens

Continued from page 3

Some of these farmers, after falling into debt, decide to give up their plots and return to their goats back in the *sequio* (arid) lands.

The short-comings of past policies have been compounded by new worries linked to the liberalisation of the Brazilian economy. The north-east views Brazil's customs union with Argentina, Uruguay and Paraguay with concern.

While the region's exports to Brazil's Mercosur partners have more than doubled in the past three years, north-easterners believe the trade pact will encourage investments to gravitate to southern Brazil.

Unfortunately, the country's changing economic realities have not produced many new ideas on the best way to tackle Brazil's yawning regional and social inequalities.

Dr Amélia Cohn, a professor of preventive medicine at the University of São Paulo, who also drafted Brazil's policy document for the United Nation's social development summit in Copenhagen, believes President Fernando Henrique Cardoso's drive to open the economy and shrink the state will lead to a further concentration of wealth, in a country which already ranks at the top of the World Bank's inequality league.

And while she praises Mr Cardoso's efforts to increase investment in education, she is more critical of the government's attempts to reform Brazil's labour laws in order to make hiring and firing easier for employers.

"The government has got its priorities wrong," Dr Cohn says.

"It wants to tackle rigidities in our employment laws without addressing the problems of child labour or slave labour which still exist in Brazil."

BAHIA

Mirror to the motherland

While a synthesis of African, European and indigenous cultures gives the state a unique character, its social and economic problems reflect patterns seen at a national level, says Angus Foster

The Brazilian state of Bahia is the product, and the symbol, of the country's best and worst.

An area the size of France, Bahia has a rich culture and great natural wealth. But most Bahians still live in poverty, in one of the world's most unequal societies.

The state's government hopes free markets, tourism and new industries such as cellulose can provide the jobs and tax revenues for the future. But unless Bahia's huge social problems are also addressed, the government's claims to be making progress will remain in doubt.

Bahians like to remember that theirs is the cradle of modern Brazilian civilisation. The first Portuguese explorers landed near the southern city of Porto Seguro in 1500. Salvador, the state's capital, was capital of all Brazil until 1763. Wealth from gold, sugar and millions of African slaves turned Salvador into the richest city in the Americas, and built Baroque churches which earned it the sobriquet of "the black Rome".

The Portuguese, who were finally expelled in 1823, left one of their most impressive collections of colonial architecture, once crumbling but now restored, in the district of Pelourinho.

More recently, Bahia has been the nursery for national idols such as the singer-songwriters Caetano Veloso and Gilberto Gil and for Brazil's most famous living author, Jorge Amado.

In the past decade, a reworking of Bahia's synthesis of African, European and indigenous cultures has created *axé* music, now being exported throughout Latin America, black consciousness movements such as Oludum and Filhos de Gandhi, and an annual carnival which is being promoted as an alternative to Rio de Janeiro.

"The Bahian is a different citizen, formed by the diversity of races, and moulded with his own characteristics," says Antônio Carlos Magalhães, a three-time state governor and one of Brazil's most powerful politicians. "Maybe it's something in the light in Bahia, or something which nature has given us," he says.

And yet, despite so many reasons for pride, Bahia has had a bad century, along with much of the poor north-east of Brazil. Traditional industries such as sugar and cocoa have suffered from underinvestment and international competition.

The industrialisation of Brazil's south meant the central government was only sporadically concerned about the north-east, which slipped behind in terms of wealth and social indicators.

These factors encouraged political systems where the state government distributed patronage in return for votes and cared little for its citizens outside election periods.

Mr Magalhães retains an iron grip on the state, where he is usually referred to by his initials of ACM. Opponents often claim he is partly responsible for Bahia's underdevelopment. "Poverty allows political domination," says Lídice da Mata, the mayoress of Salvador.

But it is the whole Bahian political system, rather than individuals, that is out of date. As elsewhere in Brazil, politics is organised around individuals rather than ideology, political parties are weak and election fraud is common.

The system, by allowing Mr Magalhães' preeminence, has stunted the development of effective opposition and interest groups to represent the many excluded sectors of society. But most opposition politicians, on the occasions they have held power, have employed the same populist initiatives Mr Magalhães has perfected.

"There's very little difference between any of our politicians – it's just that ACM is so much better than the rest," says one analyst.

Despite its previous reliance on agriculture, Bahia's economy has made progress in diversifying. A petrochemical complex near Salvador, installed under Brazil's 1964-1985 military government to spur regional development, is Brazil's largest.

The state also has important metals and service industries such as banking. Its economy, the biggest in northern Brazil, accounts for half the north-east's exports.

Paulo Souto, elected as governor in 1994 thanks to Mr Magalhães' blessing, says agro-industry and tourism are the hopes for the future. Grain production, mainly in the west of the state, has quadrupled to 2m tonnes in the past five years while irrigation projects along the São Francisco river have turned the state into an important producer of tropical fruits. Two forestry projects in the south of the state will start producing cellulose, probably for export, early next century.

However, these projects are generating few jobs and, for demographic and social reasons, the creation of employment is an urgent priority. Of the state's 12m population, probably about 5m live in rural areas, the largest such population in any Brazilian state.

More than 40 per cent of Bahia's jobs are in the agricultural sector, compared to less than 10 per cent in some rich southern states. This suggests that in coming years the sector will shed rather than create jobs, as farming techniques are modernised.

Meanwhile, Bahia's 12m population is growing at 2 per cent annually and its cities are growing at 3.79 per cent, both above the Brazilian national average.

Unemployment is difficult to measure accurately because of the informal economy, but studies suggest 40 per cent of the economically active population is unemployed or underemployed.

The critical need to create jobs, especially in the cities, explains the government's enthusiasm for tourism. As well as its cultural heritage, Bahia also possesses a spectacular coastline, some of the best beaches in Brazil and an excellent climate.

Tourist arrivals have been growing, but not as quickly as first hoped. One problem in attracting international tourists is Brazil's size. Most visitors want to see Rio and the Amazon ahead of Bahia.

Domestic tourism is constrained by Brazil's expensive internal flights while the poor quality of the road network makes bus travel long and painful.

"Tourism is perfect for us, we have the vocation for it, but the infrastructure is still poor," says Renata Proserpio at the government's economic studies superintendency.

Brazil's famously unequal wealth distribution is exemplified by Bahia. According to 1990 government figures, the poorest 20 per cent of Bahians survive with just 3 per cent of total income. The richest 20 per cent, meanwhile, receive 70 per cent, making Bahia one of the most unequal societies in Brazil and the world. The figures also show that the huge investments in petrochemicals, planned to develop the whole region, benefitted few people.

Brazil's recent economic stability will have channeled extra income to the very poor, and some economists say income figures can mislead because families in the poor interior often survive by subsistence farming.

But millions of Bahians continue to live on the minimum salary of R$112 a month, or less. Millions more live in shanty towns around Salvador and other cities, usually without water, sewerage or basic health services. According to government figures, illiteracy among the population of five years and over fell only 2 percentage points to 41 per cent in the decade to 1991.

The government says progress has been made tackling social problems. According to United Nations Children's Fund figures, the state's infant mortality rate has fallen from 99 per 1,000 live births to 61 between 1980 and 1992. But other north-eastern states have cut infant mortality quicker. "Our indices are not favourable, they're shameful even, but they've improved a lot in the past 10 years," says Mr Souto.

He says solving social problems cannot be left to his government alone, and that the scale of problems means the central authorities must help.

But the government of President Fernando Henrique Cardoso faces severe budget problems and is trying to keep spending to a minimum.

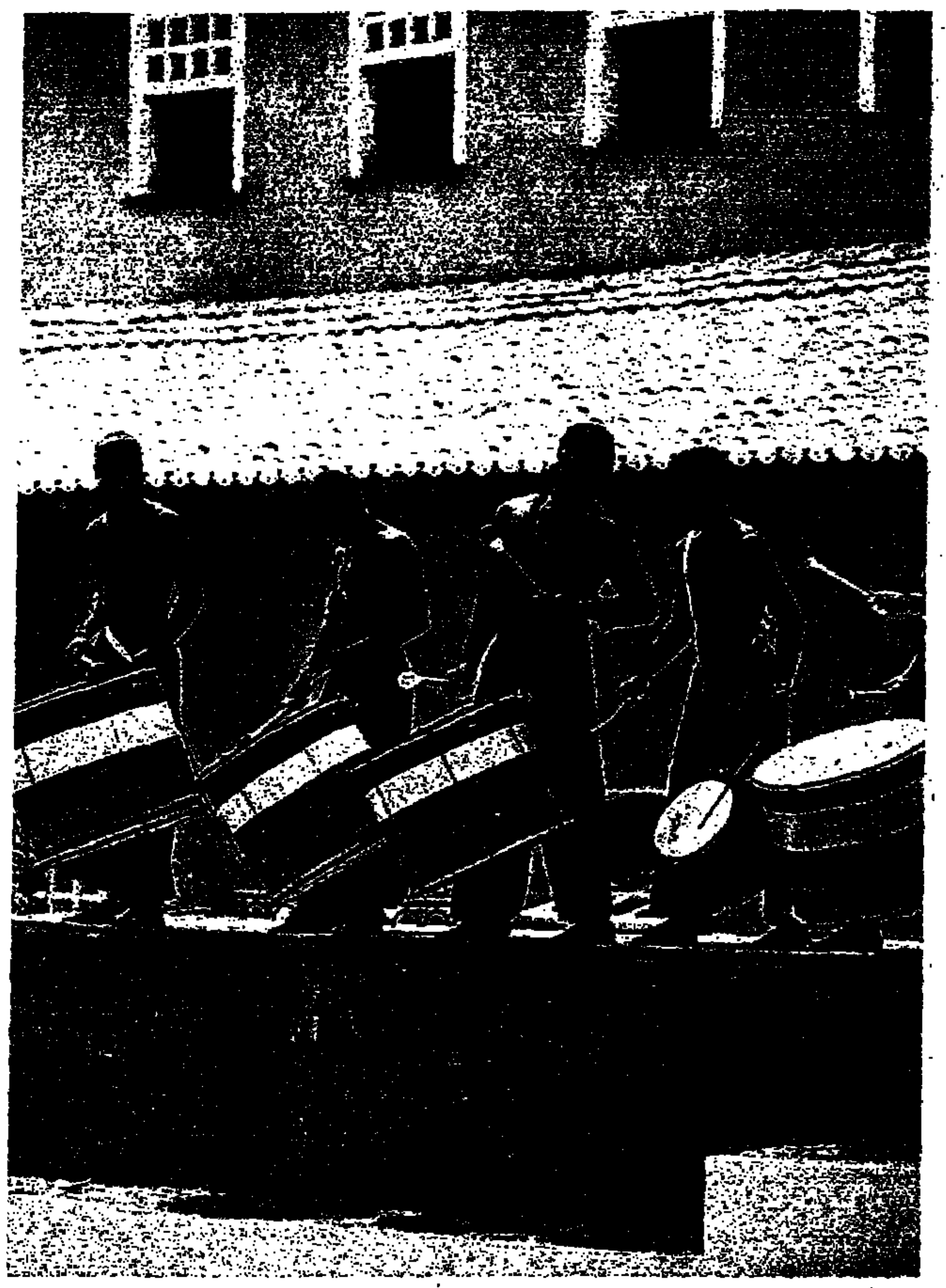
Bahia does have one significant advantage over other north-eastern states – its public finances are in good order. Unlike some Brazilian states which lose more than 90 per cent of tax revenues paying staff, Bahia's pay roll consumes only 60 per cent. The money left over, which last year totalled R$350m, is being spent on roads, education and sanitation projects.

Only 25 per cent of Salvador's homes are connected to sewerage systems. Mr Souto wants to raise that figure to 80 per cent in four years. Critics say the figure is optimistic, but they welcome the initiative.

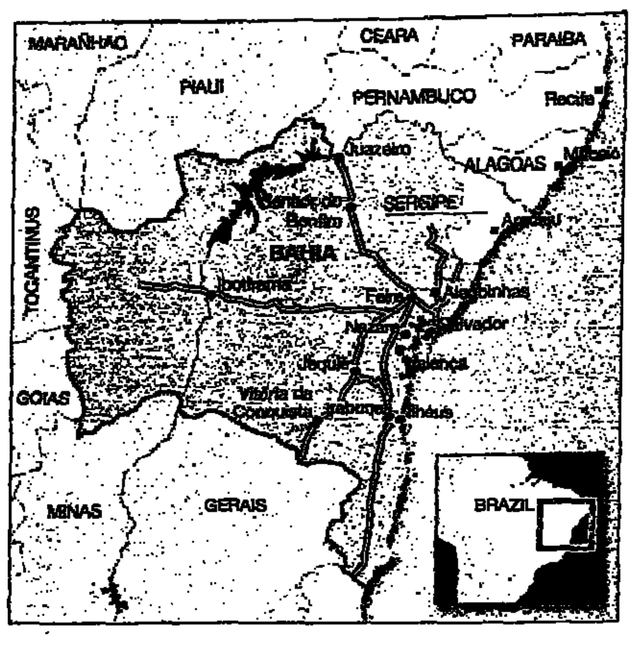
Opinion polls indicate that Mr Souto is doing a good job, although it is difficult to tell how far his approval reflects Mr Magalhães' popularity. More importantly, the new governor will be judged by his actions at the end of his mandate.

Having been at the forefront of so much of Brazil's history and culture, Bahia faces a choice. It could embrace a new model of development in which Brazil's still young democracy can represent more broadly the views of the population, and where wealth and resources are more evenly spread.

The alternative would be to allow the divisions within Bahia to continue to widen, and the state be left further behind compared to the rich south.



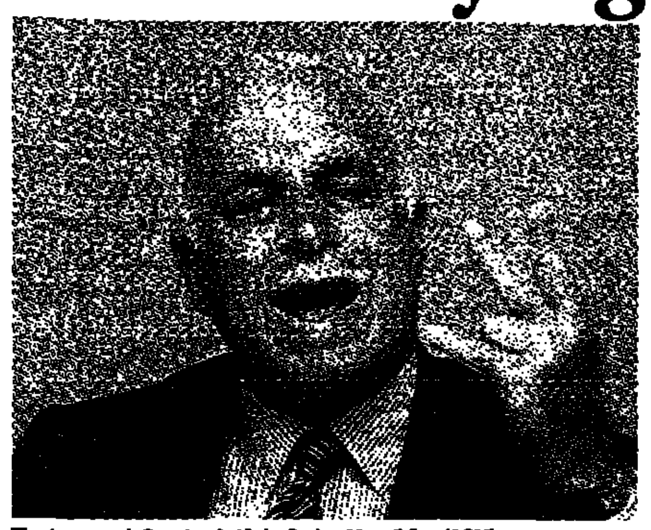
Rich heritage: black consciousness movements such as Oludum have emerged in the past decade



■ **Politics:** by Angus Foster

Senator with staying power

The government's old-fashioned hold over the state seems assured for some time to come



The 'emperor': Senator Antônio Carlos Magalhães (ACM)

Backed by ACM: Paulo Souto

Politics in Bahia is both extremely simple and extremely complicated. It is straightforward because nearly all power is controlled by one man, Senator Antônio Carlos Magalhães. It is confusing because of the opacity of his old-fashioned style of government.

Mr Magalhães, widely known by his initials ACM, has been in power so long that the word opposition is only used to refer to his rivals. Drawing on his second name, the state is divided between Carlistas and anti-Carlistas and he is often described as the "emperor" of Bahia.

Born into a middle class family, ACM's power base has been built on a genius for politics, ruthlessness and deft timing in negotiating Brazil's swings between civilian and military government. He was one of the mainstays of the 1964-1985 military regime, yet wily enough to distance himself from it in time to become minister of communications under the first civilian government once the generals retired.

> 'Do you think one man could have achieved all this without standing for good causes?'

He has been governor of Bahia three times. In 1994, when he was elected as a senator, his backing was strong enough to secure the election of his chosen successor as governor, Paulo Souto. He also helped elect an outsider to the other senate seat on offer, as well as 22 of Bahia's 38 federal *deputies*.

In a further display of influence, his son Luis Eduardo was appointed president of Brazil's lower house of Congress and is a likely candidate for state governor in the 1998 elections.

ACM's opponents portray him as an out of date bully and claim his paternal style of politics is one reason for Bahia's social problems. Politicians in poor parts of Brazil are often accused of buying votes, literally and metaphorically, and Bahia is often cited as a centre of election irregularities. His aggression and short temper give critics plenty of ammunition.

"He represents a model of government which has been overtaken, he's too conservative and stuck in the past," says Lidice da Mata, mayoress of Salvador.

ACM dismisses the criticism. "Do you think one man could have achieved all this without standing for good causes?" he says. "If Bahia is changing as they say, it's thanks to me because I've put forward all the best names. Look at the present governor, who I put forward as a technician but who's now a competent, serious politician."

Brazil has a long tradition of strong-arm politicians, especially in poor regions such as the north-east. The system became known as "coronelismo", because local leaders were known as colonels after the military ranks they bought as status symbols.

Unlike his predecessors, however, ACM came from an urban rather than rural land-owning family. He also quickly realised the growing importance of the media in politics and elections. During his time as communications minister, he managed to gain control of Bahia's five main broadcasting concessions. He and allies are also alleged to control more than 50 radio stations in the state.

His power evokes comparisons with totalitarian regimes. Earlier this month, a big Salvador-based bank reopened after ACM pressured the central government not to shut it down. An editorial in the Correio da Bahia (proprietor: ACM) thanked him for his campaign, saying: "Few public figures have shown such fearlessness and even daring in launching themselves in defence of the interests of their people."

An open letter from the state's six biggest business chambers was even more gushing in its praise for a victory which "once again highlights your competence and love of this land, which owes you so much".

ACM, who has spent 42 of his 69 years in politics, is active for his age and shows no signs of fatigue. Having suffered one heart attack, however, there is always speculation about the future.

His son Luis Eduardo is the natural inheritor of ACM's political "maquina", or machine, and at some stage will almost certainly use it as a springboard for Brazil's presidency.

In the meantime, the "opposition" seems so weakened by successive defeats that the Carlistas' hold over the state seems assured for some time, with or without their patron.

ACM himself will be out on the campaign trail again later this year when he hopes to help elect his choice for mayor of Salvador, the only important job in the state which he does not already control.

His candidate, Antônio Imbassahy, has a good chance of winning, especially since the "opposition" is divided over whether to unite behind a single challenger.

"The opposition's weakness stems from their incompetence. I've defeated all of them put together two times. Who gave me the backing to do that was my people," says ACM.

Wooing the foreigners

On a recent trip to Japan, President Fernando Henrique Cardoso did his utmost to persuade Honda to locate a vehicle assembly in the north-east of Brazil. He was not successful. Despite appetising incentives, it is believed that Honda will build its factory in the state of São Paulo, Brazil's industrial heartland.

Bahia, however, has not given up hope of attracting a major vehicle manufacturer. "Even if you are a latecomer like Bahia, you can still join the game," says Luiz Carreira, Bahia's state planning secretary.

He is not deterred by the absence of local manufacturers to supply parts to a foreign assembler. "Foreign vehicle makers tend to bring their suppliers with them," Mr Carreira argues. Such has been the case with Fiat, the Italian car maker which has chosen to locate in Minas Gerais, Bahia's southern neighbour, and Renault, which is building an assembly plant in the southern state of Paraná.

The Brazilian Congress is debating a package of incentives to attract vehicle makers to the north-east which, if approved, Mr Carreira believes will help Bahia draw a foreign car manufacturer to its territory.

But others believe the state government is out of touch with the harsh new world of competition. "The automobile industry is like an icon in Brazil," says Carlota Gottschall, a Bahian economist. "The states who possess it feel blessed by this paradigm of development. That is why Bahia also wants a vehicle industry of its own. But no amount of tax breaks will compensate for the lure of the markets and industrial skills of the south."

In these and other ways, Bahia feels it handicapped by its under-development. "It is easier to privatise a highway in the south of Brazil than in the north-east," Mr Carreira says. "The same goes for putting out private tenders for services such as sanitation. So while Brazil's new economic policies may be good for the country as a whole, they are not necessarily advantageous for the north-east."

That is why Mr Carreira believes President Cardoso should continue exercise his "powers of persuasion" to direct private investors to the north-east.

Leslie Crawford

■ **Economy:** by Leslie Crawford

Showing signs of age

The state's model of economic development is no longer able to generate growth

Brazil's reluctant embrace of market economics and free trade is forcing Bahia to grapple with an uncertain future as it confronts the limitations of its outdated model of development.

The largest state in the poor north-east was the main beneficiary of centrally-planned industrialisation drives and federal government money during the 1970s and '80s, when Brazil's largest petrochemical complex was built outside Salvador, the state capital, and manufacturing overtook agriculture as the mainstay of Bahia's $26bn economy.

Large, government-funded irrigation projects brought commercial farming to Bahia's arid interior, while fiscal incentives gave birth to new industries such as metal refining and the production of paper pulp from eucalyptus plantations.

Bahia's state-propelled industrialisation allowed it to outpace the growth of the Brazilian economy during the 1980s. But the 1990s have seen a reversal of this trend. Severe drought in 1992 and 1993 blighted agricultural production, while the opening of the Brazilian economy has exposed Bahia's protected manufacturing base to outside competition.

As a result, Bahia's economic growth in the 1990s has averaged only 2.8 per cent a year, against 3.4 per cent for Brazil. In 1995, Bahia's economy grew by only 1.8 per cent, as sharp falls in agricultural production (particularly in the traditional cocoa plantations), mining, manufacturing and electricity, were only partially compensated for by the expansion of tourism and trade.

Brazil's efforts to put its federal finances in order have affected Bahia in a number of ways. Cutbacks in central government spending have led to the rapid deterioration of federal highways, ports and railroads, hindering Bahia's attempts to integrate itself into the economy of the more prosperous southern states.

Bahia was nevertheless quick to grasp the implications of the withdrawal of central government help. Over the past five years, the state administration has practiced self-reliance, ordering its own finances and cutting back its payroll to liberate more resources for investment.

Bahia's fiscal discipline has in turn allowed it to tap more than $1bn of funds from the World Bank and Inter-American Development Bank. "Because our finances are in shape, we are one of the few states in Brazil which can raise finance abroad," says Luis Carreira, Bahia's planning secretary. Over the next five years, the state government plans to invest $2bn to improve sanitation, health and education services, of which $880m will come from the state's own resources.

The Mercosur customs union between Brazil, Argentina, Paraguay and Uruguay has also been a mixed blessing for Bahia. Mr Carreira says Bahia's exports to Mercosur partners have doubled since 1993 to more than $255m, despite the handicap of an over-valued Brazilian currency. Fruit exporters from Chile have also visited the São Francisco valley, and offered help in marketing Bahia's tropical produce in Europe and the US.

Most Bahians, however, believe Mercosur is encouraging private-sector investment to gravitate to southern Brazil, a move which will leave Bahia further behind in the development race.

"Bahia is worried about the changes in Brazil's economic policies," Mr Carreira says. "In a country with huge regional disparities, central government must direct its efforts at promoting greater equality. We need policies that will allow us to compete with the south."

> 'We need policies that will allow us to compete with the south'

Businessmen and economists, however, are divided over what these policies should be.

Eberard Diniz Bezerra, president of the American Chamber of Commerce in Salvador, believes that the old formula of tax breaks and government subsidies will no longer do the trick.

"Bahia must rethink its development model," Mr Diniz says. "It cannot compete with the south as an industrial centre: we do not have the consumer market, the labour skills, or even the suppliers that are needed for an integrated manufacturing base. I think Bahia should concentrate on its natural abilities, which are tourism, agriculture and mining."

José Sergio Gabrielle de Azevedo, an economist at the Federal University of Bahia, believes Bahia will pay dearly for the failure of past development policies to raise the living standards of Bahia's rural and urban poor.

"The old development model concentrated wealth in the hands of a very small industrial and farming elite," he argues.

By ignoring the need to educate and train Bahia's labour force, Mr Gabrielle believes the state is now ill-equipped to meet the demands of a modern economy. More than 40 per cent of Bahia's population is illiterate (compared with an illiteracy rate of 18 per cent in Brazil's southern states), while half of Bahia's labour force has completed only one year of schooling.

Income levels are also abysmally low, with some 44 per cent of Bahian families surviving on less than $200 a month, according to a 1990 government survey.

A better income distribution, Mr Gabrielle argues, would have created the demand for a labour-intensive horticulture industry, for example, helping to provide employment for the 5m people (40 per cent of Bahia's population) who still live in rural areas.

Better education would also have allowed Bahia's subsistence farmers to integrate themselves into commercial farming activities, which are dominated by immigrants from southern Brazil.

Bahia's state authorities have belatedly started to invest more in education, but Mr Carreira at the planning secretariat admits: "We have lost 30 years of development because we neglected education for so long."

Until a new generation can be trained, the government is placing its hopes on the growth of tourism, forestry and commercial agriculture – activities that demand a low level of skills – to employ Bahia's growing labour force.

Leslie Crawford

Employment (1990)

Sector	%
Agriculture	42
Others	1
Public sector	5
Services	29
Commerce	11
Civil construction	6
Industry	6

Source: IBGE/PNAD

Exports from the north-east $bn

	1991	1992	1993	1994
Bahia	1.3	1.49	1.45	1.72
North-east	2.86	3.0	3.0	3.5
Bahia's share of north-east exports (%)	45.5	49.1	47.7	49.1

Source: SEI

Gross domestic product growth %

	1991	1992	1993	1994	1995	1991-1995 average rate
Bahia	-4.2	1.4	1.3	6.7	1.8	2.8
North-east	2.5	-2.4	-1.5	9.9	4.4	2.5
Brazil	1.2	-0.9	5.0	5.7	4.2	3.4

Source: SEI

■ **Agriculture:** by Jonathan Wheatley

The struggle to adapt

Irrigation has raised production, but many still find commercial farming alien

In the sertão of northern Bahia, land that until recently was a semi-arid hinterland of rocky scrub is producing grapes and mangoes for export to Europe and the US. In the west of the state, the same near-wilderness last year produced 1.9m tonnes of grains.

The irrigation projects on the banks of the Rio São Francisco have created a flourishing agro-industrial complex in an area that until 15 years ago was good for little more than cattle and subsistence farming. But critics worry that the projects have been implemented with insufficient concern for their impact on the local population.

Meanwhile, traditional agricultural activities elsewhere in the state are struggling to adapt to the changing conditions.

Cocoa, Bahia's most important commercial crop since the end of the last century, accounts for 15 per cent of the state's R$2bn ($2.02) annual agricultural product. But the collapse of international prices, aggravated by pests and drought in the past two years, has cut annual production from 400,000 tonnes in the early 1980s to about 200,000 tonnes today.

Pedro Barbosa de Deus, Bahia's secretary of agriculture, says producers must modernise if they are to survive a "very grave" situation. "The collapse of world prices is a strong barrier to recuperation," he says. "But as prices aren't likely to recover the only alternative is to increase productivity."

That means replacing old cocoa bushes with younger and more disease-resistant strains. Despite movement in this direction, producers have little capacity for investment, and replacing stock, says Mr Barbosa de Deus, "has long been planned but never gets done".

Beef cattle were established in the interior of Bahia three centuries ago to supply sugar cane plantations on the coast. Today, the state's 10m cattle make it the main supplier for the north-east of Brazil. But expansion into other markets is prevented by widespread foot and mouth disease.

Another traditional product, cotton, also faces difficulties. One problem is disease but, says Mr Barbosa de Deus, "the biggest plague on cotton is the federal government". He says producers face unfair competition from abroad because of low import duties and high domestic interest rates.

Part of the solution to the problems of traditional Bahian agriculture lies in irrigation. Projects established since the late 1970s by Codevasf, a federal government body that oversees development of the São Francisco river valley, have irrigated 750,000 hectares out of a potential 6.5m hectares in Bahia.

In the west of the state, production of grains has almost quadrupled in the past five years as the area under irrigation has expanded. Soya and maize farmers, mainly from the south of Brazil, have moved to the region bringing modern techniques that are highly mechanised and non-labour intensive. Codevasf pumps water from the river and delivers it to the edge of the producers' property; producers provide their own irrigation systems and pay for the water used.

In the fruit-producing area in the north of Bahia, similar projects are matched by programmes to settle small farmers. Codevasf establishes "colonies" with infrastructure such as housing, schools and medical centres, and allocates plots of about eight hectares complete with irrigation canals to farmers who pay for the land over 10 to 14 years.

In the colonies around Juazeiro many small farmers make a good living from grapes, mangoes and other tropical fruits. Carlos Alberto Pereira Mouco, an agronomist at the local Codevasf office, points to a plot where one farmer made a profit of R$45,000 last year from mangoes and passion fruit.

While many succeed, however, many feel excluded by the projects. Juazeiro's population has doubled in the past 15 years to 200,000, while the rural population has swung from 75 per cent to 25 per cent of the total. Many have been attracted from outside the municipality by the prospect of work; many have left subsistence farms to live in the town and work as salaried labour on company farms.

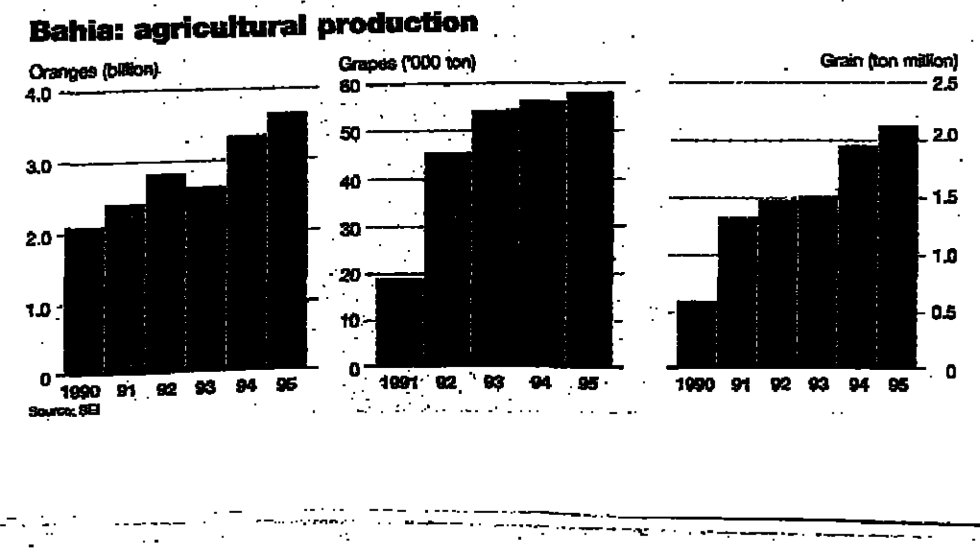
Although Codevasf tries to allocate plots to local farmers, many are unable to adapt to commercial farming. Instead of providing training, says Roberto Malvezzi of CPT, a church land-reform movement, Codevasf brings in farmers from outside the region.

"Development should be designed to improve the lives of local people," says Mr Malvezzi. "Instead it has made them more miserable."

Most of the salaried labourers in Juazeiro live in shanties on the outskirts of town. CPT says crime has increased with the population.

Mr Malvezzi says the solution for local agriculture lies in low-cost projects that would encourage farmers to stay on their land. Despite their problems, however, Codevasf's projects are likely to make a significant contribution to Bahia's agricultural economy.

Bahia: agricultural production



■ **Tourism:** by Leslie Crawford

Foreign arrivals still low

Dependence on the local market must be reduced before the sector can start to create more jobs

When I first visited Salvador as a penniless backpacker in the 1970s, my guest house was a crumbling mansion in the centre of the old town, where the manageress wore pink nylon negligees and entertained single men late into the night.

I am told she retired to the suburbs, along with much of the low-life that inhabited the Pelourinho, after the government of Bahia moved in to restore Salvador's historic district to its 17th century splendor.

The "new" Pelourinho, with its magnificent Portuguese churches, cobbled alleyways and gaily painted houses, has become a show-piece in Bahia's efforts to attract more tourists. The state government has spent $50m over the past three years in the restoration project, attracting restaurants, shops and art galleries to the Pelourinho, and creating an estimated 15,000 jobs in the process.

Almost every government official, and much of the local business community, wants tourism to become Bahia's biggest employer and income-spinner in the not-too-distant future, even though it represents less than 2 per cent of the state's gross domestic product today.

With traditional agriculture in decline and a petrochemical industry passed its peak, the state government is channelling the lion's share of its investment budget into infrastructure projects that will enhance the potential of its fledgling tourist industry.

A new coastal highway has opened access to the palm-fringed beaches north of Salvador; a new airport for Porto Seguro, where the Portuguese first landed in 1500, has made Bahia's southern coast accessible by international charter flight; and earlier this year, the government launched a $600m environmental programme to clean up All Saints' Bay, which receives the untreated sewage of Salvador's 2.5m inhabitants and the toxic waste of many industries.

Barra do Itariri Conde: promotional efforts in the US have met competition with Caribbean holiday resorts

Investment in tourism-related infrastructure projects, which has totalled $1.2bn since 1990, is expected to gather pace with extra funds from the Inter-American Development Bank.

Despite the government's promotional efforts, however, tourists and international hotel chains have been slow to arrive.

"Our biggest drawback is that we are not the first port of call for foreign tourists," says Avani Perez Duran, director of LR Turismo, a leading tour operator in Salvador. "Most tourists fly to Rio. Bahia is still considered an optional extra, rather than a destination in its own right."

So while Bahia remains a favourite holiday destination for Brazilians, particularly during Salvador's riotous week-long Carnival, only 300,000 foreigners visited Bahia last year, accounting for just over 10 per cent of the tourist intake.

Erico Mendonça, a senior official at the state tourism secretariat, is unhappy about Bahia's dependence on domestic tourism, which fluctuates with the erratic health of the Brazilian economy. "We would like to diversify our market," he says. "But in order to do so, we need to attract international tour and hotel operators, which bring the foreign tourist business with them."

Bahia's promotional efforts in the US have not met with much success, largely because of the competition of Caribbean holiday resorts. Europe has proved more responsive, with the Meridien, Sofitel, Club Med and Meliá chains establishing themselves in or near Salvador in recent years.

It is a Brazilian company, however, rather than a well-known foreign operator, that is likely to place Bahia on the international tourist map. Odebrecht, one of Brazil's largest construction companies, is planning to build Latin America's largest holiday resort on a deserted beach 40 miles north of Salvador. The first phase of the project, with 1,500 hotel rooms and chalets, is awaiting the approval of environmental authorities. Over 20 years, the company plans to invest $2bn to transform the resort into a "leisure city" for 160,000 guests.

Odebrecht's Sauipe project has become a test case for Bahia's ability to balance economic development with the need to protect its fragile coastal environment. Up to now, the state's health and sanitation authorities have played a catch-up game, moving in to provide clean water and sewerage networks long after the ill-planned urbanisation of some coastal areas has wrought havoc with the environment.

"We are now trying to plan before development takes place," says Sonia Fontes, director of Salvador's Metropolitan Development Company. Her biggest battle has been to convince cash-strapped municipalities to respect the state's new environmental guidelines.

"Poverty is our biggest enemy," she says, as mayors will approve almost any housing or property development that allows them to collect more local taxes. Another problem has been the practice of illicit logging along the coast, destroying much of Bahia's areas of Atlantic rainforest.

To the alarm of social workers, poverty is also feeding a growing sex-tourism industry in Salvador. There have been reports in the Brazilian press of "tour operators" in Europe who run child-prostitution networks to service clients who pay for sex-holidays in Brazil.

"There are five-star hotels in the north-east of Brazil which offer videos with young girls for rent," says Hélia Barbosa, a lawyer who campaigns for the protection of children. "There are restaurants where menus come with photographs of child-prostitutes."

Ms Barbosa says both the police and state authorities have started to take the exploitation of children seriously. A media campaign against child-abuse has raised awareness of this social scourge and encouraged the community to denounce suspected cases to the police.

■ **Banking:** by Jonathan Wheatley

A victim of stability

The temporary closure of Banco Econômico proved a shock to the state's economy

"Closing Banco Econômico brought Bahian business to a standstill. It was a catastrophe. If the bank had stayed closed, the result would have been chaos." This view – that of a leader of Bahian industry – is shared throughout the state's economy.

Econômico, Bahia's – and Brazil's – oldest bank, was more than a private business. As a provider of retail and commercial banking services, often with only half an eye to profitability, it was almost an unofficial conduit of government policy. For many Bahians, proud of their regional identity, it was the only bank to trust.

It was thus a shock to Econômico's customers when it was placed under control of the central bank last August after revealing a liquidity shortfall of about R$3.5bn ($3.53bn).

Like many Brazilian banks, Econômico was a victim of economic stability. The government's success in cutting monthly inflation from 50 per cent in June 1994 to about 1 per cent deprived banks of the easy earnings provided by high inflation. Once this prop was removed, the hitherto suppressed effects of Econômico's relaxed management style and a history of allegedly fraudulent operations brought it near to collapse.

For months after its closure, Econômico's future was uncertain. The federal government at first favoured liquidation, but relented under pressure from Bahian politicians. Eventually, a rescue package was assembled. Banco Excel, a São Paulo wholesale bank, would take control of Econômico's retail operations, including assets and liabilities of R$2.3bn, in return for a capital injection of R$350m. Its partner in the deal would be Swiss bank UBP. Econômico duly reopened under its new name of Excel Econômico on May 2. All deposits were intact and had earned interest above inflation.

The temporary closure caused an uproar in Bahia. Two other big banks – Banespa and Banerj, the state banks of São Paulo and Rio de Janeiro – had been taken under central bank control eight months earlier, but remained open. The government argued that closure of Econômico was necessary to avoid a rush of withdrawals: big depositors had been leaving for months. But for many in Bahia, the closure amounted to victimisation.

"Econômico was subjected to a campaign of conspiracy," says Alvaro Conde Lemos Filho, president of Bahia's commercial association. "The big banks in the south wanted it to disappear. The whole point of the central bank's intervention was to close it down." Mr Lemos Filho says the banking industry is one example among many of the deliberate concentration of Brazil's economy in the comparatively affluent south.

"The relationships between Bahian businesses and their banks diminished from the 1970s," he says. "Econômico was the only private bank left with a local feel."

The strength of Econômico's commitment to the local economy was one of the reasons for its downfall. Although not a big investor in industry, it was a close partner of many businesses, providing payroll and other services. Many branches operating within companies and in rural areas did so at a loss. This helped it to earn powerful defenders among Bahian politicians, ever mindful of local grass-roots support.

Senator Antônio Carlos Magalhães the chieftain of Bahian politics, wanted to see Econômico handed over to the state. The strength of support for Econômico was enough to persuade multinational group Odebrecht to consider mounting a rescue. "We have never felt the desire to enter into competition with our own bankers," says Gilberto de Freitas Sá, a board director at Odebrecht. "But if it had been the only way to save the bank, we would have joined other investors in a rescue deal."

The directors of Excel Econômico say it will maintain its headquarters in Bahia and its Bahian identity. But much is bound to change.

"We will continue to offer the same services as the old Econômico, within the possibilities of a private bank," says Ezekeil Nasser, president of Excel Econômico. "But Econômico went beyond that. Its political roots went deep and there was a lack of commercial discipline."

Mr Nasser says the new bank will have strict rules for lending to private and small business customers. Commercial operations such as leasing and foreign exchange will be controlled by a series of "credit platforms". Discipline, he says, will be absolute.

Excel Econômico has guaranteed to make no job cuts during its first two months, when it will decide whether or not staffing is overweight. The bank workers' union, which claimed victories in securing the guarantee and ensuring that all workers were paid while Econômico was closed, fears that up to 3,000 of Econômico's 9,500 employees could lose their jobs.

Mr Nasser says his aim is to extend rather than reduce Excel Econômico's branch network. The new bank's 284 branches, 278 of which were Econômico's, are distributed evenly between the north and south of Brazil. Mr Nasser says the bank will open more branches in the south. "We have to concentrate our activities where the GDP is."

CASE STUDY Popular music in Brazil

The rhythm of a nation

In sandals, knee-length breeches, leather jerkin and dreadlocks down to his waist, Carlinhos Brown leans over a pair of bongos. "This is samba," he says. PaTApatup paTApatup paTApatup paTApatup. Adding a half beat here and a quarter beat there, alternating stresses, moving the syncopation from centre to rim, he rings the changes.

"This is Cuban . . . this is reggae . . . this is Afro . . . this is samba reggae." He straightens and smiles. "See? It's all the same. It's all Brazilian."

In fact, he has made the differences quite clear, but he is illustrating a point: Brazilian music, while borrowing from other musical styles, remains at all times essentially Brazilian. "Brazilian music isn't influenced," he says. "It absorbs."

Carlinhos Brown is one of the brightest stars of modern Brazilian pop, yet he is echoing ideas first circulated by Oswaldo de Andrade, an avant-garde poet, in the 1920s.

Andrade said Brazilian culture should reject romantic notions of nationalism in favour of an intellectual ideal of barbaric innocence, and borrow freely from whatever sources suited the national spirit. At the same time, Brazilian musicians were completing an amalgamation of rhythmic and vocal styles taken from the traditions of native Indians, Portuguese and Dutch settlers and African slaves to produce samba.

While other styles remain strong in Brazil – *sertanejo* country-style music is enormously popular – it is samba, added to and stretched in all directions, that is the basis of Brazil's great contribution to world music. "Samba is the basic matrix behind all Bahian culture," says Nelson Mendes of Olodum, an organisation operating cultural and educational programmes in Salvador and best known for its percussion band of the same name.

Olodum's music has a strong African feel and part of its contribution to Salvador's culture is to emphasise the city's African roots and take a lead in the anti-racist movement. But perhaps its biggest addition to Brazilian music was the invention by musical director Neguinho da Samba of samba reggae, a new rhythm that combines the drive of reggae with the lilt of samba and became the basis of Bahia's biggest popular music style, *axé*.

In Rio de Janeiro, samba has its most flamboyantly urban expression during carnival. Rio is also the birth-place of Bossa Nova, the conspicuously sophisticated, laid-back form that traded influences with American cool jazz.

The disciples of Bossa Nova that came of age at the start of Brazil's military dictatorship in the mid-60s retained its lyrical and rhythmic sophistication and added elements from western rock such as electric guitars, synthesisers and, above all, rebellion. They called their style MPB (for Brazilian popular music) and their songs became a focus of urban protest against military rule.

Thirty years later, many of MPB's leaders are still among the most popular and respected figures in Brazilian music. Caetano Veloso has almost iconic status, touring and producing albums with apparently ceaseless energy, his music constantly reworking its own thematic roots and introducing new elements from western and Latin traditions.

For some, however, the heights of lyrical and musical virtuosity reached by the leaders of MPB have been abandoned by the current generation of Brazilian popular musicians. Margareth Menezes, a singer most famous overseas for her work with David Byrne, an American exponent of world music, says modern Brazilian music fails to meet the needs of its audience.

Iconic status: Caetano Veloso — Fernando Sampaio

"Popular culture is a reflection of the soul of the nation, so maybe what's happening today shows the public mood," she says. "But people have a right to music of a higher quality."

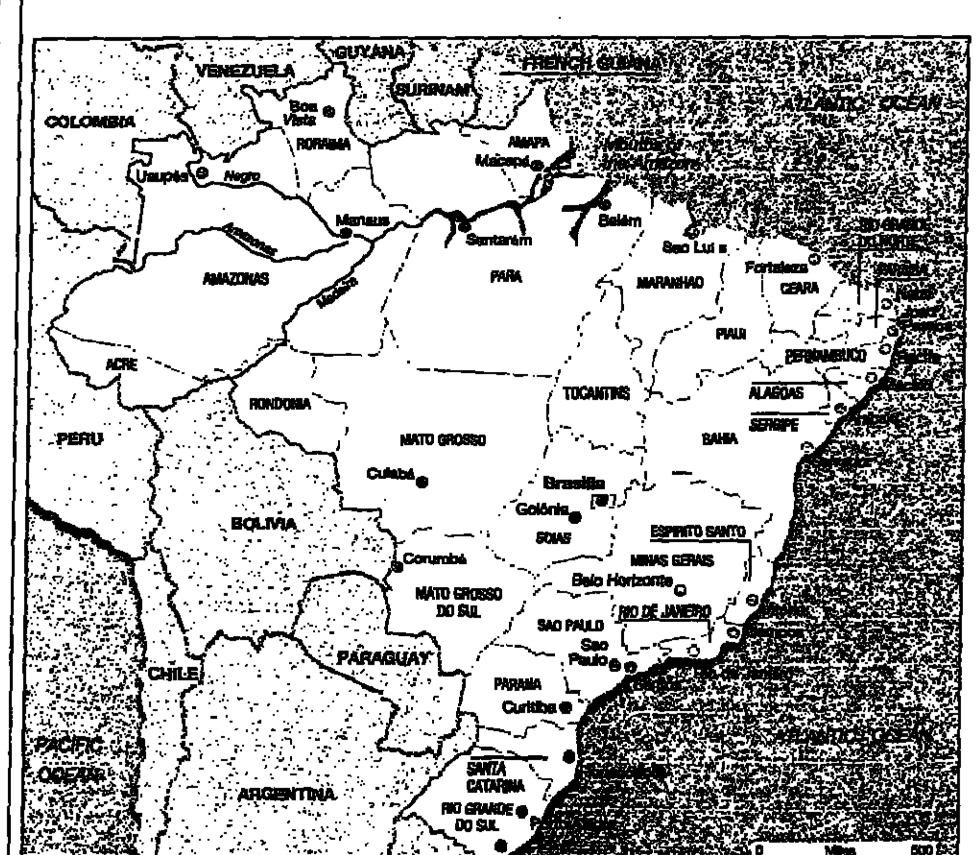
In fact, according to Martha de Ulhôa Carvalho, a professor of music at the University of Rio de Janeiro, MPB was never as popular as its name suggested. "Bossa Nova and MPB were developed by and for an urban elite," she says. The truly popular musical styles – *sertanejo* in the south and centre west, *axé* in the north-east and *pagóde*, a modern urban samba, almost everywhere – all share two big popular concerns: falling in love, and partying.

Especially in São Paulo and other urban centres, *pagóde* has risen to dominance in the past three years and supplanted more aggressive reggae and rap-based music that had a stronger element of protest against poverty and urban depredation.

What it lacks in profundity it makes up for in energy and enthusiasm. And Carlinhos Brown – described by a director of a Bahian cultural institute as "the prime example of Brazilian eclecticism and a mentor for his generation" – says that in any case, popular music has no need to preach.

"The lyrics are the least important thing," he says. "Action is more important than making speeches. There's a lyric on my new album that goes bubabadababadadap, with some English and Spanish thrown in. It's the language of the rhythm of communication. That *is* communication."

Jonathan Wheatley



TECHNOLOGY

Cleaner ways with magnets

The ability of micro-organisms to devour toxic chemicals is often used to clean up polluted sites. In a variation on this theme, scientists have found a way to use the magnetic properties of some bacteria to remove toxic metals from contaminated water.

These magnetic bacteria could find a role in clearing out the canals of Venice. Over the years, these have silted up so much that it is sometimes impossible for emergency vehicles to gain access at low tide.

The canal system is polluted with toxic heavy metals from the industrial complexes around the Bay of Venice. That presents difficulties in dealing with the sediments removed after dredging the canals.

A team of scientists from Italy, the UK and Ukraine believe that magnetic bugs could provide the answer. The bacteria would attract the heavy metals in the sediments; the metals and bugs could then be separated from the rest of the sludge by using a magnetic system.

The technology was developed at Southampton University by Jim Watson and his colleagues when they investigated the properties of certain bacteria that occur naturally in sewage, deoxygenated water and sediments. It is being commercialised by Biopraxis, a start-up company in which the university has a 25 per cent stake.

The team found that, when mixed with certain metals and nutrients, the bacteria were able to absorb a large amount of certain metals. They subsequently discovered that the micro-organisms produced an iron sulphide coating that attracts and holds certain metals.

The project, which is seeking funding from the EU's Copernicus project, is linked to another project concerned with the clean-up of sites contaminated with radioactive metals in Ukraine. According to Watson, the technique is inexpensive and can cope with very low concentrations of metals, making it suitable for cleaning up radioactive waste.

Vanessa Houlder

Smart jets that can warn of defects and repair themselves are now a possibility, says Cliff Friend

The feeling aircraft

Early in the next century, those nattily-dressed flight attendants on the world's commercial airlines could find themselves overshadowed by the "smartness" of their own aircraft.

A global race is on to develop the world's first aircraft constructed from structures that will monitor their own health during flight, and warn of any cracks or defects as they occur. Aircraft with feelings, one might say.

These self-sensing structures will replace some traditional ground-based inspection, creating a sea change in the way the health of aircraft is checked, improving safety and reducing maintenance costs.

Aircraft are subjected to continuous inspection throughout their life in a battle to detect signs of corrosion or microscopic cracks caused by metal fatigue, which, if allowed to go unnoticed, would impair their safety.

The importance of this regular inspection is illustrated by the few occasions when things do go wrong, such as the case of an Aloha Airlines Boeing 737 flying between the Hawaiian islands in 1988.

In spite of continuous health checks, shortly after takeoff, and at a height of 20,000ft, a 6m section of the aircraft's fuselage broke away, instantly sucking a flight attendant to her death and leaving 61 of the 95 passengers injured, three critically.

The cause of the accident was microscopic cracking of the fuselage which had grown imperceptibly over many years of service and which finally spread as the aircraft climbed to its cruising height.

Monitoring the health of aircraft is a laborious process. Ground staff check an aircraft every time it lands: at regular service intervals aircraft are stripped of their internal fixtures and subjected to detailed inspection, including the use of ultrasound.

The commercial overheads of such a regime are enormous. British Airways alone employs more than 1,000 staff to inspect and service its 60 Boeing 747s, and the world's airlines spend an estimated \$30bn (£20bn) annually on the costs of repairs, overhauls and spares.

These health checks also reduce the revenue-earning capacity of airlines because they remove aircraft from service for periods ranging from days to weeks.

Health monitoring must remain central to airline safety, but, as Barry Booth, chief of development engineering at British Airways says: "Airlines welcome any new technology which will improve on their existing practice."

Such a technology is now possible. To create a "smart" structure, an aircraft must be covered in a network of sensors, rather like the human nervous system but made of optical fibres, similar to those used to carry telephone calls.

When a portion of optical fibre is stretched or compressed, the frequency range of the light carried within it changes. Processing these changes by computer allows engineers to detect stress and strain at thousands of separate points along such a fibre.

When bonded to a conventional aluminium aircraft, or woven into the carbon-fibre reinforced plastics (CFRP) now entering service in the latest generation of passenger aircraft, networks of these "optical nerves" will monitor any damage that develops through impact, corrosion or fatigue. Demonstrations of this technology already exist. Ray Measures, an aerospace engineer at the Institute of Aerospace Studies in Toronto, has built an experimental section of "sensual" wing for the De Havilland of Canada Dash turboprop aircraft, which is in service with commuter airlines worldwide.

The wing's leading edge is a particularly difficult region to inspect conventionally and so Measures has incorporated "optical nerves" to inspect it. The wing has not yet flown, but ground tests have shown it can detect the damage which results from impact with foreign bodies such as runway debris and birds.

Worldwide, many other aerospace companies are developing similar demonstrators, including British Aerospace which is working on a sensual fuselage based on similar fibre-optic technology.

However, sensuality is only the beginning of "smart" aircraft. Work is already under way to create aircraft that not only sense damage but also make themselves healthy again.

Cranfield University is working on "composite structures" that can "limp home". These contain muscle-like metal wires that can adapt their shape in response to control signals and be activated at the first sign of damage. These force shut any cracks, minimising the further accumulation of damage and allowing a damaged aircraft to fly safely to its nearest airfield for an emergency landing.

Self-repairing structures are also becoming feasible.

For example, Carolyn Dry at the University of Illinois is developing composite materials containing hollow fibres that can release adhesive into a damaged region of structure. These will allow localised self-repair, as well as the possibility of repair systems that can be replenished at regular intervals or improved during the life of an aircraft.

When "smart" aircraft will appear is a difficult question to answer. Realistically "sensual" structures will be available in the form of advanced demonstrators over the next decade, but self-repairing structures are likely to be earth-bound for many years to come.

However, there is no doubt that "smart" structures will, over the next 20 years, create a revolution in the way aircraft are inspected and serviced, reducing the likelihood of incidents such as that experienced by Aloha Airlines.

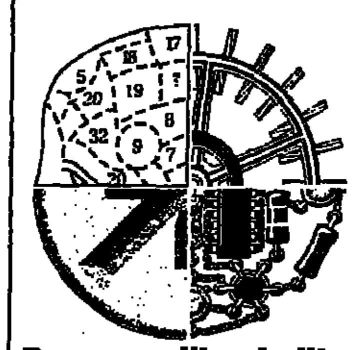
They will also offer improved revenue-earning ability by allowing an airline's aircraft to fly safely for more hours before costly (in commercial terms) human intervention, and offer reduced overheads associated with inspection and maintenance.

Airlines are already responding positively to this technology. For example, British Airways' engineering division, one of the industry's leading maintenance and overhaul businesses, is assessing the potential of "smart" aircraft structures.

It is, therefore, likely that smart aircraft will soon be in the world's airline fleet once they are proven to offer improved safety and cost benefits and cleared by airworthiness authorities.

Cliff Friend is head of Cranfield University's smart materials group.

Worth Watching · Vanessa Houlder



Porous ceiling built for sports centre

Work has begun on a sports centre in Callander in Scotland with a "porous" ceiling designed to cut down energy consumption and improve air conditions within the building.

The building's loft will be insulated using materials that allow air, moisture and vapour-linked pollution to filter through them.

A fan will draw a slow-moving stream of air into the building through a flue in the roof. As the air moves through the insulating material, it will be heated up. The downwards flow of air should also cut down the energy wastage usually caused by hot air rising to the top of the building.

The insulating materials will be able to absorb and emit water in a way that stabilises the building's humidity. This is expected to cut down problems with mould, bacteria and viruses.

Gaia, the architects, says "dynamic insulation" systems, pioneered in Scandinavia and continental Europe, have cut running costs by up to 30 per cent.

Gaia: UK, (0)131 558 1432; fax (0)131 558 1432.

Switch from cobalt for batteries

Rechargeable lithium batteries can store more than twice as much energy for their weight as other rechargeable batteries. But their use has been limited by the high cost and the toxicity of the cobalt component used in the electrode.

Chemists at the University of St Andrews in Scotland have experimented with an electrode material that replaces cobalt with manganese – which is far less toxic and 100 times cheaper than cobalt. According to a report in today's Nature, its charge capacity and stability compares well with other compounds used for lithium battery electrodes.

University of St Andrews: UK, tel (0)1334 463825; fax (0)1334 463808.

Automatic search through a database

Tracking down relevant articles on an electronic database can be time-consuming. The answer, according to a US electronic business information service, is to offer readers summaries of articles that are automatically generated using statistical techniques.

IntelLX says its summaries – which consist of a few of the most relevant sentences directly from the full text of the article – can cut down the information overload facing managers.

This kind of text-summarising program is an example of "natural-language processing", in which computers deal with information expressed in a human language. It uses statistical tools to sift the text to find phrases that occur most frequently. By assuming this is a measure of relevance, the sentences can be ranked in order of importance. IntelLX, part of DataTimes Corporation, used software developed by Claritech Corporation based in Pittsburgh.

IntelLX: US, tel 703 5247400; fax 703 5247401.

Plastics sorted with air and water

Daimler-Benz has found a way of recycling plastics from disused components and production waste, that dispenses with the need to sort types of plastics by hand. The equipment consists of a glass column filled with several hundred litres of water and air bubbles.

The technique relies on the different responses of different types of plastic granules when put in water. Plastics that are difficult to wet are more likely to attract air bubbles and float. Conversely, the plastics that are easy to wet, or hydrophilic, stick to the bottom of the column.

Tannic acid can be used to separate plastics that cannot otherwise be distinguished using this technique. The acid combines with certain plastics in a way that makes them hydrophilic and allows them to be separated from the mixture.

Daimler-Benz: Germany, tel 71117 93039; fax 71117 94365.

Cinema/Nigel Andrews

Females up front

GIRL 6
Spike Lee

UP CLOSE AND PERSONAL
Jon Avnet

NOW AND THEN
Lesli Linka Glatter

THE CONFESSIONAL
Robert Lepage

GUILTRIP
Gerard Stembridge

We told you it would happen and it is. In *Girl 6, Up Close And Personal* and *Now And Then* women are taking over the centre of the movie screen and next week comes the *coup de grâce, How To Make An American Quilt*: a film awash with female buddyism that has no man at all among five above-the-title divas.

Modern movie males may at last be suffering from that slow-release toxin called the feminist movement. There are still boys' movies out there, but increasingly and caricaturally they seem just that. In *From Dusk Till Dawn, Broken Arrow* and the forthcoming *Mission Impossible* boys deal death with guns, rockets and one-liners, while in other filmic arenas girls get on with the more serious business of running life.

In *Now And Then* four little women learn how to grow up in a Middle American small town. In *Up Close And Personal* news reporter Michelle Pfeiffer storms to the top of national television while sidelining co-star Robert Redford. And in Spike Lee's *Girl 6*, the supposed top villain among black male chauvinist film-makers clears the screen of just about everyone with a shaveable face.

Correction. In this giddy, raggedy-structured but likable tragicomedy of sexual manners we begin with a guest spot from Quentin Tarantino, fast becoming the cinema's favourite bigot. As a film director called "Q.T." *he asks the auditioning* young black heroine (Theresa Randle) to take off her clothes. Flustered and humiliated, she stomps off out of the room, down the corridor and into the plot proper. Here, with the support of a cross-media cast including Madonna, Halle Berry and Naomi Campbell, her acting dreams give way to the addictive remunerations of telephone sex.

Starting in a sort of switchboard brothel, she later takes her work home to her one-room New York apartment. The only real men in her life are an ex-husband now turned petty thief (Isiah Washington) and Spike Lee playing a tenement neighbour and best friend. Elsewhere, the men she canoodles with across the ether are faces or bodies seen in fuzzy video-shot footage, with features shadowed or half-concealed.

The men are marginalised. But there is no suspicion that the movie is foregrounding a woman merely to itemise the stations of her humiliation. The script written by Suzan Lori-Parks sees "Girl 6"'s salaried sexual servitude less as a form of abasement than as *the requisite fall* that goes before a resurgence of pride. It is paralleled by the subplotted tale of a little black girl who falls down a lift shaft and lives.

This side-story allows cameraman *Malik* Sayeed to impose a little *Vertigo*-style virtuosity on the nightmarish scenes of Randle's mid-movie decline. Infernal dark-red filters; push-pull tricks with changing perspective; and a sense of "falling" even on firm ground.

Girl 6 is a mess, but a mess with charm and originality. Lee's adventurism here extends to the soundtrack. He gives wall-to-wall exposure to the artist formerly known as Prince, whose yowly lyricism adds piquancy to the tale of an independence-seeking woman who braves her chosen hell to emerge into a tougher, brighter heaven.

Up Close And Personal is soft-focus and assembly-line. Would you believe a remake of *A Star Is Born*, written by the duo who gave us the last, Streisand-starring remake (Joan Didion, John Gregory Dunne) and set in the wonderful world of American network television?

Most of us who visit the US would rather stick pins in ourselves than tune into the folksy doggerel that *passes for news over there. But* Michelle Pfeiffer takes it so seriously that she strides from her local station into a state network, as if following in the high-heeled footprints of Nicole Kidman in *To Die For*. (This film has so many direct antecedents it should come with a genealogy chart.)

Once there, the drop-dead blonde meets the already dead, or seemingly so, news director (Robert Redford). Smiling through a thousand facelifts, Redford introduces her to the well-oiled cant of his media world – "If it bleeds, it leads", "We're only as good as the stories we tell" – while taking what seems weeks to get around to the film's real business, romance.

They kiss, they caress, and after much gilt-lensed romping in the surf they finally make love. But tragedy lurks, even after Pfeiffer has become an overnight telly star. ("She eats the lens," explains Redford.) In Act Three a prison riot and a war in Central America test their survival powers, *though by then we are* already urging fate to get a move on as we try to stay interested in two gesticulating hairdos masquerading as human beings.

Now And Then is better. The adventures of four girls growing up in a small-town housing estate in the 1960s threaten a riot of rite-of-passage clichés. But appealing performances and a slyly observant script by Marlene King – especially good in showing how the giggly candour of pubescent girls can be more forthright about sex than boys' pretended machismo – keep overfamiliarity at bay.

The only spoiler is the framing sequence, in which the grown-up girls reunite in the form of well-known Hollywood stars. Melanie Griffith presents the only known example of a girl's voice getting higher as she reaches womanhood, while Demi Moore (who also produces) leads the others in a gluey coda of sentimental summarisings.

Robert Lepage's *The Confessional is two hours of stylistic ingenuity in* search of dramatic substance. Filming in his native Quebec, the avant-garde French-Canadian theatre director fashions a movie debut strong on cinemania. Real and recreated glimpses of Alfred Hitchcock shooting his 1952 thriller *I Confess* in the city are blended with a parallel plot about priestly crisis, involving a pregnant woman, an errant priest and a young homosexual confessor.

This, as the film grows even more mosaic-like, soon becomes a flashback story as we accompany a young man (Lothaire Bluteau) padding through present-day Quebec investigating the mystery of his parenthood, related of course to the above imbroglio.

Lepage revels in the sliding layers of time and illusion. He interleaves bits of Hitchcockery (blood vortexing down a plughole, more cod-*Vertigo* stair shots) with his own deft visual puns, like the gay sauna whose whispering cubicles resemble a nest of confessionals. But over two hours, *so much cleverness has us pining for* more content. However intoxicating at first swig, both the plot conundrums and the characters end up seeming as deficient in life as the liqueur-filled pieces in Bluteau's eccentric mid-movie chess game.

The gauchely filmed *Guiltrip* is more compelling. First-time Irish filmmaker Gerard Stembridge plonks the camera down pretty much anywhere. But there is an eerie vibrancy in the tale of a soldier husband (Andrew Connolly) who treats his wife like a squaddie – she even has a "standing orders" book recording household rules and regimens – and then, roused by growing jealousy, unleashes his violence on another woman. Never mind the production values (there aren't any). Feel the sense of closed lives leading to exploding passion.

Last and least, Eddie Murphy returns in the lamentable *Vampire In Brooklyn* (15, Wes Craven): as short on wit and invention as it is long in the special-effects teeth. If it *threatens to come to your local cinema*, surround the place with garlic.

A mess with charm and originality: Spike Lee's "Girl 6" with Theresa Randle as the independence-seeking woman

Theatre

On the Boulevard

Liliane Montevecchi was last seen at length in London in the West End run of the musical *Grand Hotel*. She has also been a prima ballerina, a star of the Folies Bergère and a contract starlet with *MGM* Pictures. The former Tony Award winner now presents a one-woman music show in a louche basement theatre off Lower Regent Street, in which any snorts of derision are rapidly silenced by the force of her personality.

Yes, she may look like the picture in Liza Minnelli's attic; yes, she may emerge for her finale in a robe sewn with the entirety of the EU sequin mountain; yes, I may have alternated seriously considering falling for an older woman with wondering how the old slapper thought she could get away with it . . . but get away with it she does. In spades. Montevecchi's strategy is to keep playing it big, even though she may be downstairs from a Spaghetti House; sure enough, the laughs come, but with them comes a warm, golden seduction, until the audience accepts unquestioningly that the greatness she so amusingly protests is her true and deserved stature.

The song-writers whose work she performs may include Sondheim, Porter and Rodgers & Hammerstein as well as Piaf, Aznavour and Brel, but this is primarily an evening of *chanson*: Montevecchi vamps playfully with the punters and unleashes torrents of guttural gallic "R"s, switching between French and English in alternate verses and coolly seguéing from number to number in a tight, skilfully programmed set.

Having co-opted her violinist as a dancing partner in "New Fangled Tango", she manages to make standing still seem the most erotic activity imaginable on a *dance floor; flirting* with around half the audience in turn during "Je Cherche un Millionaire", she made a succession of critics shrug apologetically for the modest size of their wallets.

Her patter is the glue that holds the show together, whether talking about *la vie Parisienne* or her own life *story: recounting* her casting in Tommy Tune's musical, *Nine*, she explains: "I never been to an audition before (I'm a star, I'm a star)" . . . The audience chuckles but on that occasion Montevecchi laughed all the way to a Tony. And as the evening progresses, her musical skill advances by stealth, until . . . well, not even the great Scott Walker could make Rod McKuen's mawkish English lyric for "Ne me quitte pas (If you go away)" sound genuinely poignant, but Montevecchi brings out the beautiful *tristesse* without even breaking sweat. By the end of the press performance she had the most hardened West End butchers eating out of her panther-like paw. A *remarkable woman.*

Ian Shuttleworth

Jermyn Street Theatre, London SW1, until June 23 (0171-287-2875)

Theatre/Alastair Macaulay

Jane Austen vulgarised

Mansfield Park, Jane Austen's version of the Cinderella story, is the least lovable of her six novels but among the greatest. In it she develops that extreme moral precision for which she is only matched in English literature by Richardson in *Clarissa*; and she advances her genius for the realistic detail that perfectly reveals manners and psychology. *Pride and Prejudice* – her previous novel – she called "too perfect"; and its flaw is that it is the greatest novel Georgette Heyer never wrote.

No one could say that of *Mansfield Park*. I like Lionel Trilling's theory that *Mansfield Park* was Austen's deliberate reaction to the too delicious charms of *Pride and Prejudice*, and that the winning heroine of *P&P*, the cherishable Lizzie Bennet, turns up again as Mary Crawford, the too worldly and morally imprecise anti-heroine here. Fanny Price, Austen's Cinderella heroine, is not only physically weak, conversationally unfunny and socially timid, she is also something of a prig. The man she marries is no rich landowner, but a clergyman who has spent most of the novel *in love with Mary. The superb* scene at Pemberley in the former novel, where Lizzie to her surprise meets Darcy on his home terrain, finds a yet more brilliant but far less pretty counterpart in the Portsmouth episode of *Mansfield Park*, where Fanny finds herself embarrassed by her family and reluctantly impressed by the social grace of Henry Crawford, the man *whose proposal of marriage she has* been resisting.

To those who have never read Jane Austen, and to those who intend never to read Jane Austen, let me commend Willis Hall's stage adaptation of *Mansfield Park*, as staged for the Chichester Festival Theatre by Michael Rudman. Again and again, Austen's dazzling attention to points of behaviour is misconstrued; her whole moral sense is blunted. One of the most basic points of *Mansfield Park* is that Maria and Julia Bertram, the proud cousins to whom Fanny is Cinderella, are perfect in social externals; *it is only* in feeling and in moral judgment they are deficient. Here, however, they are socially maladroit. Maria behaves like an Essex girl with Henry Crawford, pushing her skirts and verbal innuendoes around to ludicrous extents. Edmund's socially embarrassed reason for joining the family theatricals is here perverted into part of his campaign in wooing Mary Crawford.

Some of Austen's witty lines of commentary are here spoken by servants, but the same characters are also given reams of beneath-stairs moaning. This *Mansfield Park* sounds as if it was written in the servants' hall, by someone with rather less sense of social manners than the authors of *Upstairs Downstairs*. There is a much higher proportion of singing and dancing than in the novel, all to give audiences the kind of sweet and trite impression that Austen avoids, and some of it unstylish. And what of the whole Portsmouth episode, the greatest achievement of the novel? It is simply deleted.

Liza Goddard, an ageing soubrette, is grossly miscast as the indolent Lady Bertram, whose languor she makes as if being turned out on a very slow, stiff, stupid machine. Lucy Akrill, Nina Jacques and Jay Villiers are astonishingly vulgar and coarse as Maria, Julia and Mr Rushworth; Ursula Smith actually removes most of the malice from Mrs Norris, Jane Austen's most disturbingly evil character: and Mark Jax gives a *charmless, unpolished lower-middle*-class account of Edmund.

Several actors – Lucy Scott as Fanny, Tony Britton as Sir Thomas Bertram, and Ashley Russell as Tom – are pretty good, even though the script veers their characters away from Austen's on some important points. But no good performance can make much headway against the insipid banality of the production. Hall's adaptation must bear much of that responsibility, and Rudman's direction a larger share. Amplification only reduces the already low style quotient. This *Mansfield Park* abounds with just the snobbish, coarse, callow attention to worldly surface that Austen herself so movingly criticises.

Chichester Festival Theatre, to July 20.

Alastair Muir

Tony Britton and Lucy Scott in 'Mansfield Park'

INTERNATIONAL

ARTS GUIDE

■ AMSTERDAM

CONCERT
Concertgebouw
Tel: 31-20-5730573
● Murray Perahia: the pianist performs works by Scarlatti, Handel, J.S. Bach and R. Schumann; 8.15pm; Jun 8
EXHIBITION
Rijksmuseum Tel: 31-20-6732121
● South Wing: after three years of renovation, the museum's South *Wing is open to the public again.* Displays of 18th and 19th-century paintings, Asian art, costumes and textiles are on view in 16 new rooms; to Sep 22

■ BERLIN

CONCERT
Konzerthaus Tel: 49-30-203090
● Rundfunk-Sinfonieorchester Berlin: with conductor *Julius Rudel* and violinist Miriam Fried perform works by Paine, Hindemith and Weill; 8pm; Jun 7
OPERA
Deutsche Oper Berlin
Tel: 49-30-3438401
● Andrea Chénier: by Giordano. *Conducted by Rafael Frühbeck de* Burgos and performed by the Deutsche Oper Berlin. Soloists include Bruno Sebastian, Elena Filipova and Ralf Lukas; 7.30pm; Jun 7

■ BRUSSELS

EXHIBITION
Palais des Beaux-Arts
Tel: 32-2-5078466
● Ilya Kabakov. Sur le toit: exhibition of Ilya Kabakov's installation "Sur le toit" (On the roof), created for the Palais des Beaux-Arts, in which the visitors walk on a foot bridge over the roofs of an imaginary city; from Jun 7 to Sep 8

■ CHICAGO

EXHIBITION
Art Institute of Chicago
Tel: 1-312-4433600
● Roy DeCarava: A Retrospective: exhibition of more than 200 photographs by Roy DeCarava, ranging in date from 1949 to 1994. The exhibition captures the wide variety of subjects he addressed over the years, from intimate still-lifes to portraits of jazz musicians to poignant reflections of the panorama of daily human life; from Jun 8 to Sep 15

■ COPENHAGEN

CONCERT
Tivoli Concert Hall
Tel: 45-33 15 10 01
● London Symphony Orchestra: with conductor *André Previn and* soprano Kiri Te Kanawa perform *works by Haydn, Mozart and R.* Strauss; 7.30pm; Jun 8
EXHIBITION
Davids Samling - David Collection
Tel: 45-33 13 55 64
● By the Light of the Crescent *Moon. The Near East in nineteenth* century Danish art and literature: divided into three sections, the exhibition gives an overview of 19th-century Danish artists' portayals and perceptions of the *Middle East. The display includes* texts written by the archeologists P.O. Broendsted and J.L. Ussing and the architects H.C. Stilling and Ferdinand Meldahl, costume designs by Edward Lehmann, and Hans Christian Andersen's drawings and travel journals; to Sep 29

■ DUBLIN

EXHIBITION
National Gallery of Ireland
Tel: 353-1-6615133
● Joan Miró (1893-1983): this exhibition brings together some 100 of Miró's graphic works from the collection of the Museo Nacional Centro Reina Sofia of Madrid; from Jun 12 to Jul 28

■ FRANKFURT

EXHIBITION
Schirn Kunsthalle
Tel: 49-69-2998820
● Lucio Fontana: a major retrospective exhibition featuring the work of the Italian artist Lucio Fontana (1899-1968). The exhibition includes close to 200 works selected from museums and private *collections throughout the* world; Jun 8 to Sep 1

■ GENEVA

EXHIBITION
Petit Palais Musée d'Art Moderne
Tel: 41-22-3461433
● *Les Neo-Impressionnistes:* exhibition of some 70 works from the Neo-impressionist collection of the Petit Palais. The display includes works by artists such as Albert Dubois-Pillet, Maximilien Luce, *Charles Angrand*, Van Rysselberghe, Van de Velde, A.J. Heymans, Henri Martin, Pietro Mengarini, Signac and H. Petitjean; from Jun 6 to Sep 30

■ LONDON

CONCERT
Barbican Hall Tel: 44-171-6388891
● Royal Philharmonic Orchestra: conductor Valery Gergiev and viola-player Yuri Bashmet perform works by Debussy, A. Tchaikovsky and Prokofiev; 7.30pm; Jun 7
Wigmore Hall Tel: 44-171-9352141
● Alicia de Larrocha: the pianist performs works by Soler, Granados and R. Schumann; 7.30pm; Jun 7

■ MUNICH

DANCE
Nationaltheater
Tel; 49-89-21851920
● Shannon Rose: a choreography by Youri Vàmos to music by Sibelius, performed by the Bayerisches Staatsballett; Jun 7

■ NEW YORK

CONCERT
Alice Tully Hall
Tel: 1-212-875-5050
● On the Town: by Bernstein. Concert performance by the Concordia Orchestra with conductor Marin Alsop. Soloists include David Garrison, Kurt Ollmann, Richard Muenz, Luba Mason, Judy Blazer and Judy Kaye. A special feature of *this concert is the restoration of two* numbers dropped before the Broadway premiere, "Gabey's Comin'" and a torch song "Ain't Got No Tears Left" with lyrics by Bernstein; 8pm; Jun 7
EXHIBITION
Whitney Museum of American Art
Tel: 1-212-570-3600
● An American Story: a chronological survey of the museum's permanent collection of 20th-century American art. Divided into 15 categories and incorporating more than 200 paintings, sculptures, prints, drawings and photographs, the exhibition provides an extensive overview of the art of this century; to Oct 6

■ PARIS

CONCERT
Salle Pleyel Tel: 33-1 45 61 53 00
● Orchestre Philharmonique de Radio France: with conductor Marek Janowski, soprano Ruth Ziesak and violinist Frank-Peter Zimmermann perform works by Elgar and Mahler; 8pm; Jun 7

■ ROME

CONCERT
Accademia Nazionale di Santa Cecilia Tel: 39-6-3611064
● Maurizio Pollini: the pianist performs works by Chopin, Csiarrino and Debussy; 8.45pm; Jun 7

■ SYDNEY

EXHIBITION
Art Gallery of New South Wales
Tel: 61-2-2251700
● Kandinsky and the Russian Avant Garde: major exhibition charting the rise and fall of modernism in Russia. The display includes works by artists such as Kandinsky, Malevich, Rodchenko, Goncharova and *Popova. Many of the works have* rarely been seen before since they are drawn from museums throughout the former USSR; from Jun 8 to Aug 18

■ VIENNA

CONCERT
Musikverein Tel: 43-1-5058681
● Gurrelieder: by Schoenberg. Performed by the Wiener Symphoniker with conductor Georges Prêtre. Soloists include Deborah Voigt, Anne Sofie von Otter, Thomas Moser, Heinz Zednik, Alfred Muff and Klaus Maria Braundauer (recitative); 7.30pm; Jun 9, 10
OPERA
Wiener Staatsoper
Tel: 43-1-514442960
● Die Walküre: by Wagner. Conducted by Daniel Barenboim and performed by the Wiener Staatsoper. Soloists include Plácido Domingo, Waltraud Meier, Rene Pape and Falk Struckmann; 5pm; Jun 8

Listing compiled and supplied by ArtBase The International Arts Database, Amsterdam, The Netherlands. *Tel: 31 20 664 6441*

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17.30
Financial Times Business Tonight

CNBC:

09.00
Squawk Box

10.00
European Money Wheel

18.00
Financial Times Business Tonight

Economic Viewpoint · **Samuel Brittan**

Keynes and globalisation

It would not be a good idea for all the major countries simultaneously to reduce their budget deficits or to take other actions to boost savings

Every day, some international organisation or national think-tank lectures us on the need to save more. What would happen if a country took this advice to heart? The most likely move would be firm action to reduce budget deficits, which are the opposite of savings.

According to both classical economists and traditional moralists, the results could be nothing but beneficial. Interest rates would fall, investment rise and the growth rate increase. As a result, citizens would before long be more than compensated for their temporary sacrifices.

It was the achievement of John Maynard Keynes, the British economist, to demonstrate that these moralising tales might not always be true. The traditional analysis, by focusing only on interest rates, overlooked another variable which might respond – namely output and income.

An attempted increase in savings might reduce national income and raise unemployment. This could happen because interest rates fail to fall enough, or because investment is not sufficiently sensitive to interest rates. The result might, therefore, be a recession rather than an investment boom.

This bald summary leaves open a number of questions. How likely is such a savings-induced slump? Can it lead to long-term low employment, or are self-correcting forces likely to come to the rescue in the longer term?

These and many other related questions have been endlessly debated in the 60 years since Keynes's *General Theory* appeared – and are no nearer resolution. Answers are likely to depend on particular circumstances of time and place.

Nevertheless, Keynes succeeded in showing that an *attempted* increase in savings *can* have depressive effects, and not just the virtuous ones previously claimed. This is his main contribution to economic understanding for which he would have deserved the Nobel Prize – had it existed for his subject in his lifetime – several times over.

There has been a tendency to obscure the matter by too much talk of Keynes's wider vision, or his view of government or his role in the Bloomsbury group of artists and writers. But without the *General Theory* and its over-saving doctrines, Keynes would be remembered mainly by historians for his critique of the Versailles treaty and his name would not be a household word today.

There is, incidentally, no incompatibility between the *General Theory* and one of the main doctrines called in aid by classical economists seeking to put Keynes in his place.

This doctrine is embodied in the so-called natural rate of unemployment, more politely known as the NAIRU (non-accelerating inflation rate of unemployment). It maintains that if governments try to reduce unemployment below some minimum level, the result will be accelerating inflation.

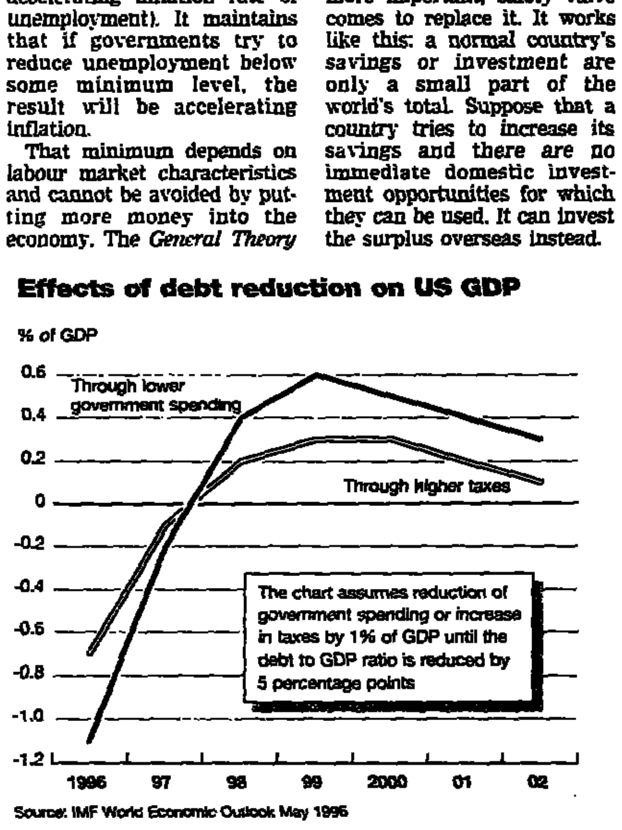
That minimum depends on labour market characteristics and cannot be avoided by putting more money into the economy. The *General Theory* says that you might not get unemployment even as low as the natural rate if attempted savings are too high and demand is, therefore, inadequate.

This potted summary of two generations of theorising has been given not for its own sake but for its relevance to the globalisation debate. Globalisation refers to a world in which, after allowing for exchange rate and default risk, there is a single international rate of interest.

What effect does globalisation have on the likelihood of Keynesian oversaving? To start with, the interest rate safety valve is removed. For if real interest rates are determined globally a country cannot respond to higher attempted savings by its residents by means of lower interest rates.

But another, and probably more important, safety valve comes to replace it. It works like this: a normal country's savings or investment are only a small part of the world's total. Suppose that a country tries to increase its savings and there are no immediate domestic investment opportunities for which they can be used. It can invest the surplus overseas instead.

Effects of debt reduction on US GDP



Source: IMF World Economic Outlook May 1996

Under the conventions of national income book-keeping an increase in overseas investment is equivalent to a shift towards surplus in the current balance of payments. If matters work out well, the effect of individuals or governments trying to save more is an increase in overseas assets.

There is no reason in principle why the Japanese savings surplus should not be offset by an increase in overseas assets for a good many years, until the time comes in the next century when the changing demographic balance of the population is expected to lead to a large drop in savings. This could be accomplished without recession and provide a nest egg for the much larger number of old people expected in that country next century.

The main reason why Japan has had such difficulty in maintaining this combination of high savings, high foreign investment and strong domestic activity is that the yen exchange rate was for a long time perversely high.

This could have been reversed much earlier than it was by an easier money policy – if necessary by printing yen to buy dollars. (In a global economy, an easy money policy makes itself felt through a lower nominal exchange rate.)

One reason why Japan has found such a logical policy difficult to follow is the economic illiteracy of so many American policy-makers, who have regarded the Japanese payments surplus as a threat rather than a way of financing more world investment than would otherwise be possible.

Indeed, until not much more than a year ago, the US positively welcomed a soaring yen in the hope that it would reduce Japanese competitiveness.

The Keynesian threat of over-saving can still come back, however, to haunt us at the international level. All countries cannot run higher current account surpluses or lower deficits. For if we had accurate figures, these imbalances would sum to zero. So it is still possible to have a Keynesian-type slump in a global economy.

The International Monetary Fund has tried to take on board these concerns by projecting the effects of lower budget deficits (equivalent to higher saving) both in the US, and in the rest of the developed world taken together. The first of these projections is illustrated here.

The main effect on which the IMF relies to offset the depressive effects of lower deficits is a fall in real interest rates. It reckons that the increase in government debt ratios among developed countries has raised the average level of world real interest rates by at least 1½ percentage points. It expects that a reduction in debt and deficits would help reverse the trend. The US is a large enough part of the world economy for an increase in savings there to have perceptible effect on the going international interest rate.

But this effect takes time. Even on the IMF simulation, there is a year or two after a US stabilisation programme starts in which output is depressed on Keynesian lines both in America and in the rest of the world. If this setback occurs in the aftermath of a world recession or disappointing recovery, there could still be a danger of triggering a cumulative depression.

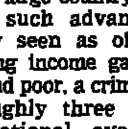
There are other interesting details. A large pre-announced programme of long-term government spending cuts is more likely in the IMF's view to boost confidence and bring down interest rates quickly than a series of small stabs which may not be maintained. Moreover, a programme of spending cuts is less likely to depress output than the more usual approach which takes the form of tax increases.

Given the uncertainties of all the models, there is reason for relief that countries are likely to try to stabilise their budgets or raise their private savings ratios a few at a time, rather than in one fell swoop.

BOOK REVIEW · Michael Prowse

AMERICAN EXCEPTIONALISM: A Double-Edged Sword
By Seymour Martin Lipset W.W. Norton, 352pp, $27.50

A nation of extremes bound by one creed



When Professor Seymour Lipset, a veteran US political historian, says the US is "exceptional", he does not mean it is better than other industrial democracies. He means it is different, fundamentally different. The book is an attempt to explain how and why the US diverged from the democratic mainstream.

He is certainly right to emphasise the differences. It is difficult, for example, to imagine Mr Newt Gingrich being elected leader of a popular assembly in other countries. His agenda – which included the abolition of government departments such as commerce and education – would have received scarcely one vote in London, Bonn or Paris.

Nor do the issues which bitterly divide Americans have much resonance elsewhere. This is one of the few rich countries where doctors willing to perform abortions have good reason to fear for their physical safety, and where extremist groups routinely defy the authority of federal government from the safety of heavily-fortified "compounds".

The US is a nation of extremes, as is illustrated by its position at either the top or bottom of most international league tables. Adjusting for the purchasing power of currencies, it is still the world's wealthiest nation. It has the lowest taxes, the fastest rate of job creation, the most vigorous philanthropic sector, and largest number of PhDs per capita of any large country.

Yet such advantages are widely seen as offset by a yawning income gap between rich and poor, a crime rate that is roughly three times the international average, the breakdown of the nuclear family in inner cities, and a unique failure to guarantee medical insurance or welfare benefits to everyone in need.

In explaining why the US is out of the mainstream in so many respects, Mr Lipset lays a good deal of responsibility on three interlinked factors: the nation's origins in a revolutionary war against the British, the political philosophy of its founding fathers, and the development of a religious sensibility quite unlike that in older nations.

As a new society, the US did away with the feudal structures and aristocratic values that still influence public policy elsewhere. There is little tradition of noblesse oblige: the elites thus lack the paternalistic sense of responsibility for the less fortunate that (along with socialism) was a driving force behind the creation of cradle-to-grave welfare states in Europe. Social attitudes, he believes, were also strongly influenced by religion. The US is the only country where most people became members of self-governing sects, such as the Methodists and Baptists, rather than hierarchical, state-sponsored churches.

The sects accentuated an inherent tendency toward individualism and encouraged a belief in the perfectibility of human nature: elsewhere official churches nurtured a greater sense of group responsibility while emphasising man's inherent sinfulness. This difference in religious sensibility, he suggests, helps explain why the Americans are such a moralistic people – why, to this day, they insist on seeing foreign policy conflicts as battles of good against evil (with the US always on the side of the angels).

Out of this unique history there arose a governing ideology – the "American creed" – that incorporates much of the essence of 18th and early 19th century "classical liberalism". The creed is optimistic, individualistic and laissez faire. It is profoundly suspicious of authority, especially that wielded by the state. It is also egalitarian, but only in the limited sense of favouring equality of opportunity and respect, as opposed to result or condition.

In Mr Lipset's view this governing ideology is a "double-edged sword". The good – and the bad – in US society are inseparable because they follow directly from its embrace of classical liberal values. The American creed, he argues, "fosters a high sense of personal responsibility, independent initiative, and voluntarism even as it encourages self-serving behaviour, atomism, and a disregard for communal good". Its emphasis on individualism, while a great asset, "both weakens social control mechanisms, which rely on strong ties to groups, and facilitates diverse forms of deviant behaviour".

Mr Lipset's analysis is preferable to that of more extreme analysts, on either the left or right, who have an entirely negative view of classical liberalism. At least he concedes that a free market cast of mind is responsible for much that is good in US society. But it is disconcerting that he makes no attempt to justify his claims for the supposed negative effects of classical liberalism. He seems to regard it as self evident that a philosophy that encourages independence and personal responsibility must encourage selfish behaviour – that pursuing one's own goals must entail a disregard for the communal good.

But why? Classical liberals favour a society in which the coercive power of the state is kept to a minimum and in which the character of economic and social life is determined by voluntary transactions between individuals. It favours co-operation of all kinds, provided it is truly voluntary and not mandated by government. If such a benign philosophy were widely accepted, there would be less, not more, socially disruptive behaviour. Pace Mr Lipset, it is because the American creed is far from universally followed, that US society is so flawed.

American Exceptionalism is available from FT Bookshop by ringing FreeCall 0500 418 419 (UK) or +44 181 964 1251 (outside the UK). Free p&p in UK

·LETTERS TO THE EDITOR·

Number One Southwark Bridge, London SE1 9HL

We are keen to encourage letters from readers around the world. Letters may be faxed to +44 171-873 5938 (please set fax to 'fine'). e.mail: letters.editor@ft.com Translation may be available for letters written in the main international languages.

US stance on trade has not set WTO adrift

From Mr J. Robert Vastine Jr.

Sir, The World Trade Organisation is not at sea. The premise of your editorial "WTO at sea" (May 28) – that the failure to reach final accords in the financial and telecommunications talks, and perhaps the maritime talks, sets the WTO adrift – is wrong.

First, there is ample time, agreed by negotiators, to make successes of the financial and telecommunications sectors. Second, the WTO's job is broader than the service sector talks, and the WTO is making substantial progress in consolidating its new mission and organisation. After all, the reciprocal trade negotiations effort to reduce tariffs took 50 years. Services will take time too, though not anywhere near as much time.

The main burden of your editorial – that it may have been unwise for the service sectors to have been unbundled and treated separately – is worth considering. It may some day be worth considering seriously, but not now.

Along the way to your main point you repeat a tired canard: that the financial services talks failed because of "recalcitrant vested interests". The fact is that offers were not sufficient to warrant binding open the US market. A recent US Treasury assessment of the actual financial markets offers filed by other parties shows why.

There was good and ample reason for our negotiators not to make that bargain. The same goes for the telecommunications talks.

Our industry wants successful WTO financial services and telecommunications deals. We want to be able to compete in foreign markets. To achieve this we have only one bargaining chip: bound access to our own market. Some, including you, argue that that is not a sufficiently big carrot. But trading it off in a bad deal is not going to advance the goal of open world financial markets or secure the benefits that will flow, especially to developing countries, from more efficient capital markets or better, cheaper telecommunications.

Bad service-sector deals will really put the WTO at sea.

J. Robert Vastine Jr,
president,
Coalition of Service Industries,
805 15th Street NW,
Washington DC 20005,
US

Profits not excessive

From Mr Michael Toms.

Sir, Your leading article "Airport profits fly too high" (June 5) on airport regulation was based on two false premises. BAA's airports are not earning excess profits. Inflation-adjusted profits for the last three years have been very close to those targeted by our regulator when the current price formula was set.

The suggestion that BAA is hiding "huge piles of cash" under the tarmac really is wide of the mark. Indeed, the opposite is the case. We're spending it on tarmac, and buildings, and improved facilities to create for the 21st century airports it will need to cope with traffic growth and expectations of customer service. Capital expenditure is running at its highest-ever level and our ongoing £400m-a-year capital programme means the company will be consuming cash, rather than accumulating it for the next 10 years.

FT readers won't need to be reminded that if we are to provide Britain with its airport infrastructure free of charge to the taxpayer we need to make profits to encourage shareholders to invest in it.

Michael Toms,
director, corporate strategy,
BAA,
130 Wilton Road,
London SW1V 1LQ, UK

Leave the market to dictate ticket prices

From Mr Glenn Wellman.

Sir, I was surprised to see the FT carrying as its lead story a little piece of local news concerning "grey" markets in tickets for soccer matches ("Illegal ticket sales threat to Euro 96", June 5). Perhaps next month you will lead with photographs of policemen arresting ticket sellers outside Wimbledon.

The prejudice against ticket touts is incomprehensible and the intervention of the criminal law is ludicrous. What possible concern is it to the state if one party wishes to sell a ticket to another party at a freely negotiated price? If the organiser of an event wishes to prevent resale then, as with travel tickets, non-transferability could be made a condition of the original sale and any breach remedied through the civil courts. Officials who misappropriate tickets or sell them fraudulently are already committing criminal offences. There is no need for special legislation.

The root of this non-problem is the familiar blend of amateurism, incompetence, petty corruption and a visceral mistrust of the market mechanism. If promoters insist on issuing tickets well below the price which customers are willing to pay, then the market will find a way of bridging the gap – it's as simple as that, although the athletic community can't seem to grasp the point. Indeed they compound the problem by issuing tickets cheaply to officials, clubs and others who intend from the start to re-sell them. The system might almost be designed to encourage corruption.

Private associations are of course free to favour members over non-members when tickets are in short supply and modern technology is capable of ensuring that the ticket is really used by the person to whom it was issued. If promoters are too stupid or too parsimonious to invest in this technology, then any losses they suffer are of no concern to the rest of us. *Caveat vendor* should be principle. Or is it perhaps the case that too many of those involved in organising the events have a vested interest in the money and favours which flow from the grey market?

Glenn Wellman,
15 College Road,
London SE21 7BG, UK

Social effects of market reform need support

From Mr Robert Davies.

Sir, The Czech election results ("Czech reforms stall after poll setback for Klaus coalition", June 3) are the latest in a series of signals to reforming governments in central Europe, and indeed further afield in India, that the pace of market reform is threatened when electorates perceive benefits as slow to arrive at a time when change brings insecurity.

Polarisation might be avoided to some extent when international investors and leading indigenous industries ensure that they operate as partners to assist public sector reform, and in support of community initiatives to tackle the social effects of transition. Key areas for partnership are training and human relations development at all levels, the sharing of management skills and environmental know-how, and assisting the voluntary groups essential to civil society.

In our experience this is both achievable and widely regarded as a valuable contribution to development and reconstruction. The challenge is to increase the scale and impact as part of the mainstream approach to sustainable reform.

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COMMENT & ANALYSIS

FINANCIAL TIMES

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Thursday June 6 1996

Choosing a UN leader

1991, when Boutros Boutros li was chosen as UN secretary-eral, he said he would serve one five-year term. In the last years he has backed away n that pledge, giving the ng impression that he was in running for a second term. month he said he had not ded whether to run again or but was hesitating because of UN's financial crisis.

his crisis, caused by a mere bn backlog of unpaid dues, is ly political. By far the biggest tor is the US, whose purse ngs are currently controlled by ublican congressmen, many of m viscerally hostile to the UN. "Booboo Ghali", as Bob Dole s fit to call him, has been ble to disarm their hostility, n though he has taken the axe he UN bureaucracy. He seems ble to speak in political lange to which the US public ald respond.

or all that, he has sought to ge the US where he could – st recently by amending the ms of the agreement on oil s with Iraq – and until a few ks ago the general assumption that Bill Clinton would not ose him for a second term ess Mr Dole chose to make an e of it during the US election paign. That may have nged as a result of the UN ort which refused to accept el's claim that a UN base in anon, crowded with refugees, been attacked by mistake. Mr tros Ghali may have wished to press or amend this report (drawn up by a Dutch general and a British colonel), but his hand was forced by newspaper leaks suggesting the UN "would not have the courage" to release it. The report infuriated not only Israel but also the US, which at the time was pulling out every stop in a vain attempt to secure Shimon Peres's re-election.

The increased likelihood that Mr Boutros Ghali will be vetoed, or dissuaded from standing, by the US has resulted in more attention being paid by the campaign to draft President Mary Robinson of Ireland as his successor – a campaign strongly favoured by as influential a figure as Senator Edward Kennedy. It would be ironic if she emerged as the US candidate, since she would be the exact opposite of the non-political technocrat the US appears to want.

The sad truth is that the UN goes about choosing its chief executive in a way no commercial enterprise or academic institution could possibly get away with. The Security Council and General Assembly should start by defining the job and listing the essential qualifications for it. Nominations should be invited, and a short list of candidates published so that the public could assess and comment on their suitability. The choice of secretary general is a matter of worldwide public interest. It should not be made behind closed doors, nor simply on the basis of the lowest common denominator of member states' concerns.

Treasured truth

official: the UK's Treasury es mistakes. Or is it? The ntly leaked admission of falliy came from a draft internal agement document produced unior staff as part of the Trea's fundamental expenditure ew. Its purpose is to help the asury decide how to improve capacity to meet demands ed upon it. But this is not the ral issue, which is whether its needs to be transformed.

e Treasury knows it is under for at least four excellent reas: first, it has been far from ingly successful in its manment of the British economy; ond, it is extraordinarily powl, serving as the ministry for ernment, the budget, finance the economy; third, it exees its responsibilities within a l secretive official culture; and, ally, its fingerprints are on e spectacular blunders, not st Black Wednesday's expulsion sterling from the ERM.

British government were card out in a moderately rational nner, there would be a public cussion of the Treasury's role. the least, there would have n examination of some big ors. Lord Bingham carried out neticulous analysis of the fail of the Bank of England in ation to the Bank of Credit and mmerce International and Sir chard Scott investigated arms Iraq. But nobody looked at ack Wednesday. Swallowing mels, while straining at gnats – that is the preferred approach.

There are two sets of questions to answer. First, is it right for any department to have so many responsibilities? Can it do any of them really well? Who is to be held responsible for mistakes? *Might government not be* improved by clashes between economics departments of less unequal weight? Is any department tackling long-term strategic questions? Should there, more specifically, be a proper department for the prime minister, a split between economic policy and the budget, an independent central bank, or all of these?

Second, can so powerful a department avoid making mistakes when so much of what it does remains secret? This not-to-be-published internal management review is an excellent example. As an internal review, it is bound to take for granted what the Treasury is for. But that is to assume what should be discussed.

The official view is that the leaking of such reports is an obstacle to conducting internal reviews. The implication is that these matters must not be discussed *devant les enfants*. But the children are the people whom the Treasury exists to serve. If they are not entitled to know what the Treasury thinks it is about, who is? The answer, no doubt, is a few ministers. So long as those who run government think government is for them alone to run, it will be run badly.

Poaching bankers

arkets driven by fear are always s rational than markets driven greed. That is what is worrying out the frenzied pursuit of vestment banking talent, which driving up pay for experienced nkers and leading to the poachg of whole teams.

The issue has come to a head in cent days, with the hiring by eutsche Morgan Grenfell of 44 efectors from ING Barings' Latin merican operations, and the conquent vociferous complaints by NG's Mr Hessel Lindenbergh.

If greed – or, to put it more olitely, a rational assessment of e potential profits to be gained investment banking – were the nly force at work, such episodes ould still occur. But they would e more limited in number, as the idding-up of salaries reduced otential profits and encouraged ore supply.

Fear is a less predictable otive. In this case, it comes in wo forms. There is a growing consensus that only a handful of big rms can hope to survive into the ext century as global investment anks. Bankers are scrambling to nsure that they qualify for the harmed circle, and adding staff in a hurry as they scramble for global scale. The salary of an incremental corporate financier is a small price to pay to head off the threat of extinction.

The second fear compounds the first. Commercial banks, increasingly the most eager participants in this rush for investment banking scale, are scared that their core business is about to become permanently unprofitable. Investment banking margins do not look too exciting to those already in the field. But to commercial bankers threatened with growing competition from low-cost electronic-based competitors, they are a bulwark against the threat of a profitless future.

Poaching of whole teams is clearly not something which public policy can address. And you rarely hear complaints from those whose salaries have been doubled in the process. It is none the less the sort of practice which bankers may, collectively, come to regret.

Such sentiments are already being voiced by elder statesmen of the banking industry, such as Mr Rudolf Mueller of UBS and Mr Andrew Buxton of Barclays. Their view – that cheque-book hiring threatens the cost structure of the industry – is the sort of thing elder statesmen often say. In any case, neither Barclays nor UBS has hesitated to bid lavishly for the right people when necessary.

A more serious concern, however, is that the hiring of whole teams destabilises financial institutions, and breaks the elaborate webs of corporate culture, mutual understanding and institutional memory which are the hallmarks of successful banking. Acquiring whole teams may be irresistible but the practice is cumulatively damaging to the industry. Poachers should think again.

Open season on fat cats

Michael Cassell on why the number of executives in the line of fire over 'excessive' remuneration is growing

Mr Tim Holley's number was up yesterday. The unsuspecting chief executive of Camelot, the UK lottery operator, found himself splashed across newspaper front pages as public enemy number one.

The tabloid Daily Mirror employed the latest digital technology to portray him as a pig "licensed to swill". Even the upmarket Independent was sufficiently outraged to publish a candid snap of the "plump feline" dozing in a deckchair in a London park.

Charities and MPs caught the scent and joined in the chase. And the cause of such universal outrage and abuse?. His "trousering" of a £120,000 bonus after claiming Camelot had become the world's largest, most efficient lottery and announcing annual profits of £77.5m.

If Camelot had proved a financial disaster, critics would have been off the mark faster than a jackpot winner. Instead, Mr Holley finds himself in the line of fire for delivering success and facing demands to hand over a share of his company's profits for good causes.

At a Confederation of British Industry conference on Europe held yesterday in London, conversation was dominated not by a single currency but by Mr Holley's overnight infamy. "It's one of those unforgettable pictures that go with you to the grave," said one executive of the Camelot chief's front-page exposure.

Without warning, Mr Holley has joined the growing ranks of UK company executives left to lick their wounds and wonder what they had done to deserve such unwelcome attention.

Earlier this year, Mr Cedric Brown ended a 40-year career with British Gas, to be remembered not for his achievements as chief executive but for a £490,000 pay packet and his portrayal as a pig with his snout in the corporate trough.

The more common caricature is the boardroom "fat cat". Among the many nominated by the media have been Mr Ed Wallis, chief executive of Powergen, the electricity generatior, Lord Young, the former chairman of Cable and Wireless, and Mr Martin Sorrell, chief executive of advertising agency WPP, whose success in the 1980s gave way last year to shareholder censure over his pay package.

Some have had to suffer worse indignities than a cut in salary. Mr Trevor Newton stepped down in May as managing director of Yorkshire Water following intense criticism of his company's handling of last year's drought. Yesterday his successor was on the defensive over bumper profits.

And there is evidence that some companies have learned from the painful experiences of others. Anxious to avoid a period in the public stocks, Railtrack, the privatised rail company, has decided against a share-option scheme for executives to avoid public censure for creating more millionaires.

Sir Richard Greenbury, chairman of Marks and Spencer, who at the height of the "fat cat" controversy in early 1995 was asked to head an investigation into directors' pay, now regrets he became involved. Quickly painted not as a white knight but as another boardroom bandit, the head of one of Britain's most successful businesses vows he will never again take on such a public role.

The decision to criticise appears highly selective. Few eyebrows were raised this week with the appointment of Mr Bill Harrison as chief executive of BZW, the investment banking arm of Barclays. No-one chose to make mischief over a salary likely to be at least £2m a year and the bank's recent decision to shed another 1,000 jobs.

If business leaders briefly enjoyed a degree of public esteem in the Thatcherite 1980s, those notching up big pay packets increasingly appear to be regarded as equally fair game alongside the nation's politicians, entertainers and sporting champions.

So why the readiness among newspapers and broadcasters to wield the knife so viciously? Beyond the old British habit of having a go at success, the answer lies in the belief that they have tapped a rich vein of public concern. This was initially aroused by privatisation but is unlikely to be laid easily to rest given the media's fascination with the issue and the intense competition for newspaper readers.

One former chief executive of a publicly quoted West Midlands company who lost his job after years of profits turned to losses says: "Privatisation started it but it has set a broader theme. I think people get particularly angry when they see boardroom pay bears no relation to performance. So far, my successor has had limited success but his pay has kept on rising."

The business community must itself take much of the blame for its bad press. The wave of privatisations involving public utilities brought about the apparently effortless conversion of faceless time-servers into multi-millionaires. To date, executives of formerly state-owned businesses are sitting on share options worth more than £100m.

The imagery of feeding time, first promoted by frustrated shareholders, was enthusiastically grabbed by the media: "The evidence suggests that consumers increasingly see many businesses as demonstrating the same lack of ethics associated with politics," says Ms Katrina Michel of Ogilvy & Mather, the advertising agency.

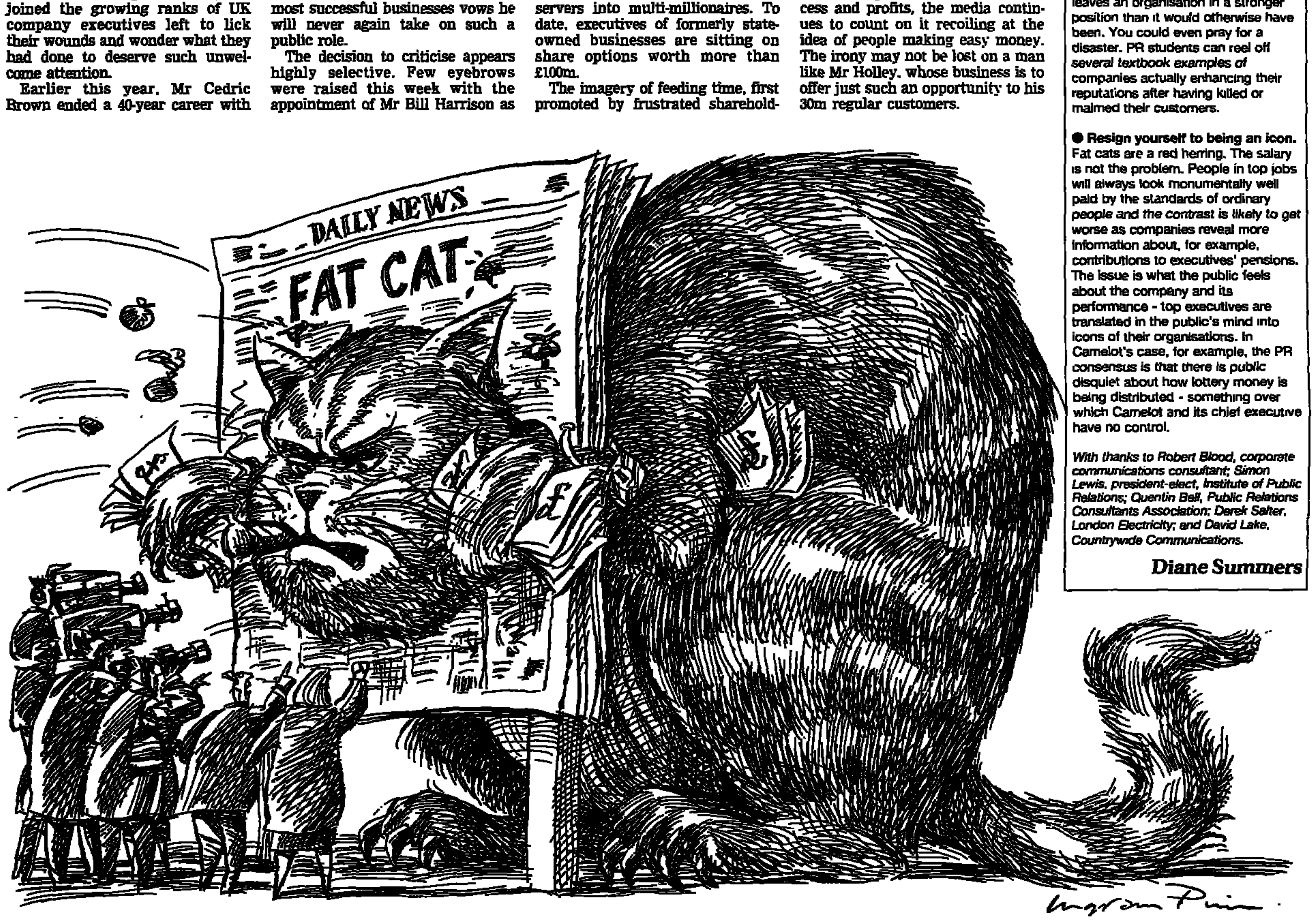
"A few companies are seen as occupying the ethical high ground but most are regarded as being either on the low ground or in no man's land. It is going to be critically important for companies to establish an ethical platform and to be seen to stay on it."

The change in public attitudes comes at a time when the public, reflected in the media which serves it, appears increasingly less deferential and when confidence in most national institutions is already in decline.

The atmosphere of insecurity brought about by continuing jobs losses and restructuring within industry has also sharpened sensitivities over the behaviour of business leaders. The idea of "fat cats" winning still fatter pay packets when people are still losing jobs has further heightened the sense of national grievance.

Research by the Henley Centre, the UK forecasting group, shows that companies need to pay much more attention to winning the trust of consumers, a task which extends well beyond the quality of their products and services to the nature of their executives' own behaviour.

But if the British public is not entirely opposed to the idea of success and profits, the media continues to count on it recoiling at the idea of people making easy money. The irony may not be lost on a man like Mr Holley, whose business is to offer just such an opportunity to his 30m regular customers.



Advice to executives: how to claw back credibility

● **Be the boxer and not the punchbag.** Be bold, courageous and on the front foot. "Transparency" is the PR buzzword. Go beyond what is strictly required when explaining remuneration. For example, explain that your business is international, so it is necessary to reward according to international standards. Point out – if true – that bonuses are linked to productivity.

● ***Look and sound the part.*** Top executives, especially those who have risen through the ranks from technical jobs, are often uncomfortable when they find themselves in the public eye. In media interviews they may hide behind technical jargon, rather than showing they understand the customer's point of view. As a result they seem insincere and lacking in warmth. You may need media training and the services of a "minder".

● **Be aware of the power of symbolism.** Fairly or unfairly, cars, corporate headquarters, entertaining and the other trappings of corporate life are powerfully symbolic of fat-cattery. Be particularly careful around the time of public announcements. The press will seize on contrasts and contradictions between a company's statements to the public and the behaviour of its executives. Spend some of the high earnings on the gym if the physique is a little wobbly – the fat cat label will be less likely to stick.

● **Accept responsibility.** That is what your allegedly fat salary is being paid for. The public tend to trust people who admit when they are wrong and confess to the bad as well as the good without sounding defensive. Complaints from the public can be a good thing. Tests have shown that a complaint, well handled, actually leaves an organisation in a stronger position than it would otherwise have been. You could even pray for a disaster. PR students can reel off several textbook examples of companies actually enhancing their reputations after having killed or maimed their customers.

● **Resign yourself to being an icon.** Fat cats are a red herring. The salary is not the problem. People in top jobs will always look monumentally well paid by the standards of ordinary people and the contrast is likely to get worse as companies reveal more information about, for example, contributions to executives' pensions. The issue is what the public feels about the company and its performance – top executives are translated in the public's mind into icons of their organisations. In Camelot's case, for example, the PR consensus is that there is public disquiet about how lottery money is being distributed – something over which Camelot and its chief executive have no control.

With thanks to Robert Blood, corporate communications consultant; Simon Lewis, president-elect, Institute of Public Relations; Quentin Bell, Public Relations Consultants Association; Derek Salter, London Electricity; and David Lake, Countrywide Communications.

Diane Summers

· OBSERVER ·

Mind Helmut for me

■ Jacques Chirac and Helmut Kohl can't get enough of each other, it would seem. Last month, the pair took a decision to meet every six weeks or so. At the start of yesterday's Dijon get-together, one of the regular twice-yearly Franco-German summits, the two leaders evidently felt that four hours of talks and dinner would not be enough to exhaust their agenda. So it was announced that Kohl would return to Paris with Chirac last night, spend the night at his favourite Paris hotel, the German-owned Bristol, and then step the 100 metres down to Jacques' Elysée place, for yet further chin wagging.

If the talks drag on, a Feydeauesque farce could develop. For at noon, Chirac is to receive Malcolm Rifkind and Douglas Hogg who are on their lift-the-beef-ban tour of Europe and will be urging the French president to use his influence with Kohl to this effect. If Kohl were still around, this could pose a problem, for he is not the easiest person to hide behind one of the screens that figure so often in Feydeau stagecraft.

Blair's business

■ Now it's the turn of the German business establishment to feel the full force of the Tony Blair charm offensive.

The Labour leader's face is plastered across the front cover of yesterday's issue of *Wirtschaftswoche*, the business weekly, to mark an exclusive interview. Not for him a cover story in *Der Spiegel*, the magisterial organ of the German Left. His audience is clearly commercial.

The interview is a prelude to a full-frontal assault on Germany's business leaders in two weeks' time, when he gives the opening address at the annual meeting of the BDI, the German industry federation.

That's quite a compliment for a leader from the left – even German Social Democrats don't often get asked.

There is no doubting the fact that Blair is the darling of the German establishment.

On the left, he is feted because he has a real chance of winning power, when Oskar Lafontaine, his German counterpart, has done nothing to revive the fortunes of the SPD.

On the right, he is seen as a much more pro-European alternative to the Tories.

Mind, he didn't give away much hint of a pro-European stance in his magazine interview. Just a few bland statements about being "constructively and appropriately involved".

They will be hoping for something rather more forthright when he pitches up to talk to the BDI.

Spaced out

■ The opening sentence of the European Space Agency's press release concerning the Ariane disaster:

"The first Ariane 5 flight did not result in validation of Europe's new launcher."

Video nasty

■ Vietnam is having a rather successful campaign to stamp out gambling, prostitution, pornography and drugs – all of them nasty pollutants that definitely rank as "social evils" in Hanoi's book.

So the police have been confiscating pornographic videos from seedy karaoke lounges, and intercepting opium at dens, mostly in Hanoi and Ho Chi Minh City.

The videos are piled up in the street, crushed by steam roadroller and set on fire; the opium is torched. So successful has the campaign been, apparently, that the state-run *Solidarity* newspaper felt able to announce yesterday that the drive "to purge smutty culture" had "admonished those who circulate these vices on the sly".

Trouble is, the social pollutants are producing clouds of toxic black fumes. So the newspaper suggests pouring water over the videos and using the opium as fertiliser for trees.

The only question is what the writer has been smoking.

Taxing task

■ French prime minister Alain Juppé's "five wise men", asked to recommend changes to the country's tax system, have not wasted any time.

The fact that they managed to produce their comprehensive analysis in less than two months is of course a tribute to their wisdom – rather than the product of a certain amount of pressure from the likes of former prime minister Edouard Balladur who want to see taxes cut rapidly.

On the other hand, they may have been helped a little by the fact that one of them had already written just such a report last year – commissioned by, er, Balladur while still in power.

If it's 10:34

■ A study conducted by the Andrology Institute of Lexington, Kentucky has discovered an interesting fact. The most popular time of day for having sex seems to be 10:34 pm.

No clue, sadly, as to which month the institute was talking about.

The Financial Times

100 years ago

The United States and Cuba

Senator Morgan of Alabama asked in the Senate that action be taken on his resolution requesting President Cleveland to supply Congress with information as to the capture of the schooner "Competitor" by a Spanish man-of-war. The case, Mr. Morgan urged, was one of the greatest gravity, and it was the duty of the President under the Constitution to keep Congress informed with regard to matters of public interest. Shrieks and groans from the stricken country of Cuba were occasionally heard in the United States, telling Congress of the atrocities perpetrated there, but any authentic official information was withheld. Every day of imprisonment of the Americans held captive in Havana was a day of dishonour for America.

50 years ago

Adelaide Electric

The directors of the Adelaide Electric Supply Company have deposited a petition with the Dominions Office praying that Royal Assent be not given to the Electricity Trust Bill which finally passed the South Australian Legislative Council on 17th April by a one-vote margin. The object of the Bill is for the acquisition by the State Government of the undertaking.

FINANCIAL TIMES
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Santer advocates more flexible working hours

EU companies say price pressure at 30-year high

By Lionel Barber in Brussels, Gillian Tett in London and Peter Norman in Bonn

Manufacturers in the European Union believe price pressures are the toughest for almost 30 years, according to a European Commission survey which also shows consumer concern about unemployment continuing to grow.

The survey was released yesterday as Mr Jacques Santer, Commission president, said more flexible working hours, including parental leave, could make a significant contribution to tackling the work crisis in Europe.

The Commission survey of 23,000 businesses in 12 member states showed that business confidence fell again in May. It has been on a downward trend for 17 months. A slight majority of the businesses said they expected to cut prices as a result of falling order books and high stock levels – the lowest price expectation since 1968.

The decline in price expectations suggests that inflation could fall further this summer, bolstering hopes of further interest rate cuts which the Commission believes should reinforce the trend toward an economic upturn in the second half of the year. The weaker business sentiment had a knock-on effect on consumer confidence, with a sizeable majority of households expecting unemployment to rise over the next year.

And though households remain cautiously optimistic about their own finances, they are getting gloomier about the overall economic outlook.

Mr Santer told the European Parliament a reorganisation of working time would be a central theme in forthcoming talks with business and trade unions on his proposed pact of confidence on employment.

Mr Santer hopes to make the pact the centrepiece of the EU summit in Florence on June 21-22, despite scepticism among employers and trade unions.

His speech to MEPs was generally well-received, though one complained that it was a "colossus built on feet of clay".

Mr Santer said he favoured a comprehensive approach to the unemployment crisis, based on exploiting the full potential of the single market, raising an extra Ecu1bn ($1.24bn) to trigger funding for the trans-European infrastructure networks, and targeting the annual Ecu14bn EU regional aid more effectively.

Last month, Unice, the European employers' federation, criticised the Commission for assuming a lead role in tackling unemployment. Mr Francois Perigot, president, said that employers and trade unions could not supplant national governments and that "meaningful agreement on unemployment cannot be negotiated at a European level".

Yesterday, German and French business leaders said Mr Santer's plans could arouse false expectations and could be no substitute for effective action by the French and German governments to stimulate employment.

Mr Jean Gandois, head of the Patronat, the French employers' federation, said after a meeting with Mr Hans-Olaf Henkel, president of the German industry federation that Mr Santer's proposals ignored the different social developments in France and Germany in the past 50 years.

Mr Santer was careful yesterday to avoid committing the Commission to its earlier "scenario" for halving the number of people out of work by 2000.

Recession fears revised, Page 2

European media alliance dies amid acrimony

By Judy Dempsey in Berlin and Raymond Snoddy in London

The ambitious digital television alliance between Bertelsmann of Germany, Canal Plus of France and British Sky Broadcasting last night collapsed with the would-be partners attacking each other.

Bertelsmann said yesterday that BSkyB, controlled by Mr Rupert Murdoch's News Corporation, had unreasonably pulled out of the deal.

But it is clear that both BSkyB and Canal Plus were exasperated by the lack of progress of the venture in a race against the Kirch group to establish digital television in Germany.

A Bertelsmann official said yesterday: "Murdoch was too impatient. You can't do business in that way here. He did not realise it takes time to enter the European market."

Canal Plus, the French pay-TV company, accused Bertelsmann of ignoring repeated requests for a top calibre chief executive to be appointed to run the multi-million project.

There was also said to be confusion on whether programme acquisition deals were for Bertelsmann's existing television interests or the new "digital platform".

Privately, Bertelsmann acknowledges that the deal is dead. BSkyB is hoping to co-operate more with Canal Plus in future.

Mr Rolf Schmidt-Holtz, a board member of BMG, Bertelsmann's entertainment division, said the group would press ahead with launching a digital television network in Germany and France with Ufa/CLt of Luxembourg, and Canal Plus and Havas of France.

That alliance would provide the content, while the Multi-Media Betriebsgesellschaft (MMBG) consortium headed by Bertelsmann and Deutsche Telekom would provide the technical standardisation for digital television.

Bertelsmann was informed of Mr Murdoch's decision to pull out earlier this week.

"We can live without Murdoch," a Bertelsmann official said. "We got our fingers burnt, but not too much. We have the green light from the competition authorities in Germany and Brussels for MMBG. And we are still on schedule to launch our digital television later this year."

Bertelsmann officials said Mr Murdoch withdrew because it was unclear what role Premiere, Germany's only pay-TV network, would play. Premiere, owned jointly by Bertelsmann, Canal Plus and the Kirch media group, was crucial for the success of the alliance since it would have provided a ready-made audience of more than 1m viewers.

See Lex

Indian government in pledge to strengthen public sector

By Mark Nicholson in New Delhi

India's United Front government yesterday gave the first taste of its governing agenda in a document which promised continued economic deregulation but also put heavy emphasis on strengthening the public sector.

It promised fiscal discipline but indicated several areas of increased government spending, adding that foreign investment in "low priority" areas – unspecified but likely to include consumer goods industries – would be "discouraged".

The 25-page "minimum programme" outlines little change in foreign policy, saying the United Front would "work for universal nuclear disarmament" and that India, which is not a signatory to the non-proliferation treaty, would "retain the nuclear option" until this was achieved.

The policy announcement followed days of backroom talks among the 13 parties which comprise the UF, led by Mr H.D. Deve Gowda, prime minister.

The UF is expected to win comfortably a parliamentary vote of confidence next week, with Congress party support. Congress, badly defeated in last month's general election, has indicated it would withdraw its backing if the coalition reversed the programme of economic reform started in 1991.

Although short on detail, the document strongly reflects the regional and "social justice" components of the coalition in promising to devolve greater powers and resources to the states, while emphasising a commitment to "reserved" public sector jobs for women and the lower castes.

The document also bears the mark of compromise between convinced reformers, personified by Mr P. Chidambaram, finance minister, and leftwing components of the coalition.

It said the UF was committed to faster growth and continued industrial deregulation and decontrol "as required".

But it laid emphasis on domestic and public investment to achieve this, saying that "at the margin" the country needed foreign investment and had the capacity to absorb $10bn a year in foreign direct investment – five times current levels.

Mr Jaipal Reddy, UF spokesman, said the government would respect undertakings with foreign groups already operating in India. He also suggested India's state-dominated insurance industry would be opened up to private and foreign investors along the lines of the cautiously liberalised banking sector.

But in a shift of emphasis from the preceding Congress government, the document argues the need to strengthen existing public sector enterprises, currently a heavy drain on India's economy, and indicates the UF will be reluctant to privatise industries.

Big Dutch bank takes over fund manager

Continued from Page 1

power, but is also able and willing to finance necessary international expansion," Mr Pieter Korteweg, chairman, said.

In turn, Rabobank spoke of its need to cultivate asset management expertise to achieve its international ambitions.

As a result of the deal, Robeco "will become a one hundred per cent daughter of Rabo," Mr Korteweg said. However, he stressed that the two companies hoped to strike a "modern, networked, non-hierarchical relationship" under which Robeco would retain autonomy over internal management.

However, Mr Wijffels stressed that important strategic decisions such as investments, further acquisitions, and essential management choices must be approved ultimately by Rabobank.

THE LEX COLUMN

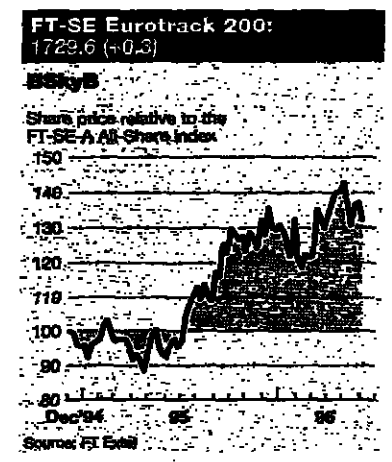
Digital divorces

The web of relationships in European media is beginning to resemble one of Mr Rupert Murdoch's soap operas. First, Mr Murdoch's BSkyB was courting Canal Plus, then Canal Plus and Bertelsmann looked like an item, while Mr Murdoch wooed Kirch; and finally BSkyB, Canal Plus, Havas and Bertelsmann got together. Except this relationship was never consummated, so the wife-swapping is due to start all over again.

Of course, with so many egos from so many different nations, there is little prospect of a marriage made in heaven. But there is every reason to try. The prize is a stake in a digital television revolution that is spreading throughout Europe. Germany alone looks like a bigger version of the British market before the advent of satellite TV – and Britain's BSkyB now has a market value of £7.6bn, built by developing its home base.

The obvious alternative alliances would be BSkyB and Kirch, with the rest of the Bertelsmann alliance remaining intact. But anything could happen. At least BSkyB is in a strong position, since it has a stranglehold on the UK market, which continues to grow and has the additional prospect of digital TV. Canal Plus, however, is cooped up in the more mature French market, where it is about to face competition from its ally, Bertelsmann, via CLT.

The real winner from the collapse of this media alliance must be the Bavarian media mogul, Mr Leo Kirch. He is about to launch his pay-TV channels in Germany. If he can establish his channels with German viewers before a strong competitor emerges, he is going to be extremely hard to dislodge.



Investment banking jobs

There is nothing new about team defections and bulging bonuses in investment banking. The only novelty is that senior executives are speaking out about something usually defended as the legitimate operation of market forces.

Yesterday's protest by ING's Mr Hessel Lindenbergh about the poaching activities of Deutsche Morgan Grenfell is the latest in a series of expressions of disquiet about the jobs market. Team hirings exacerbate the fundamental problem – the extraordinarily high remuneration levels in an industry where many firms pay guaranteed bonuses to mediocre performers, give astronomical bonuses to successful staff, and are frequently held to ransom by disgruntled employees.

It is a healthy sign that industry leaders are voicing concern, but no one has yet come up with a way of controlling remuneration. Salomon, for example, was forced to backtrack on its own laudable efforts when threatened with mass defection. Tying staff more closely to companies through equity stakes is a partial solution, which many have already embraced. But ironically, perhaps the only way for these lovers of market forces to stem the tide of bulging pay would be to form themselves into some sort of employers' union and go on a poaching strike.

Since this is clearly unlikely, investment banking will remain a better industry to work in than invest in: investors may lose their shirts when the cycle turns, and youthful traders who bet on markets may lose their jobs if they get it wrong. The difference is that investors are not rewarded with multi-million dollar bonuses in the good times.

Lucas Industries/BBA

Lucas has been a takeover target for so long that it would be a supreme irony if a bid materialised now. The proposed £3.2bn merger with Varity of the US looks like providing Lucas with scale, strategy and respected management – the first time it has enjoyed that combination in living memory.

If BBA, the engineering group, decides to launch a hostile offer nonetheless, it will have to explain why it did not move earlier, when Lucas could have been knocked out for a lot less money.

BBA's case is weak on two other counts. Marrying Lucas and Varity would create the world's second largest braking business, capable of offering car makers integrated systems led by electronics know-how. Combining BBA's commodity friction materials business (brake pads and linings) with Lucas is much less compelling. BBA's second problem is that at half Lucas' size it will have to pull out all the stops to finance a credible bid. An all-share offer (with a partial cash alternative) pitched around 300p per Lucas share would cost more than £2.5bn. To avoid earnings dilution, BBA would need to raise margins at Lucas from 7 to 10 per cent in the first year – a very tall order.

In BBA's favour, Mr Bob Quarta, its chief executive, has a great record and Lucas could do with a dose of his aggressive management. BBA is also right to focus on the fact that the proposed Lucas/Varity deal promises much but delivers nothing up front for shareholders. LucasVarity could remedy that – and make life very difficult for BBA – by promising to pay a special dividend if its merger goes ahead.

Allders/Swissair/BAA

The squabble over Allders' duty-free business has got out of hand. The clear winners are Allders' shareholders, who are being offered a handsome price of £160m for a less than sparkling asset. But everybody else emerges from the episode a loser.

Allders' board, for a start, must feel pretty silly. If the sale had not needed shareholder approval, BAA would have won control for £130m – despite Swissair's willingness to pay more. To be fair, BAA had Allders over a barrel at the time – and Swissair had not bid conclusively. But given Swissair's evident desperation, this simply suggests Allders' handling of the negotiations was inept.

BAA has had the good sense to walk away rather than bid yet higher. But if, as seems likely, BAA cancels its contracts with Allders to set up its own duty-free business, its shareholders should protest. For BAA to plunge into a business requiring sophisticated distribution networks, and from which it can already extract the juiciest returns through rents, would be a classic case of pointless, high-risk utility diversification.

But Swissair looks the biggest victim of its success. True, there should be modest synergies from adding to the purchasing power of its existing duty-free side. But it is still buying a business likely to make pre-tax profits of £15m next year, about half of which will probably evaporate if the BAA contracts are cancelled. Deduct tax, and Swissair is paying an absurd 30 or so times earnings for a business constantly at the mercy of airports, and facing the abolition of European duty-free sales in 1999.

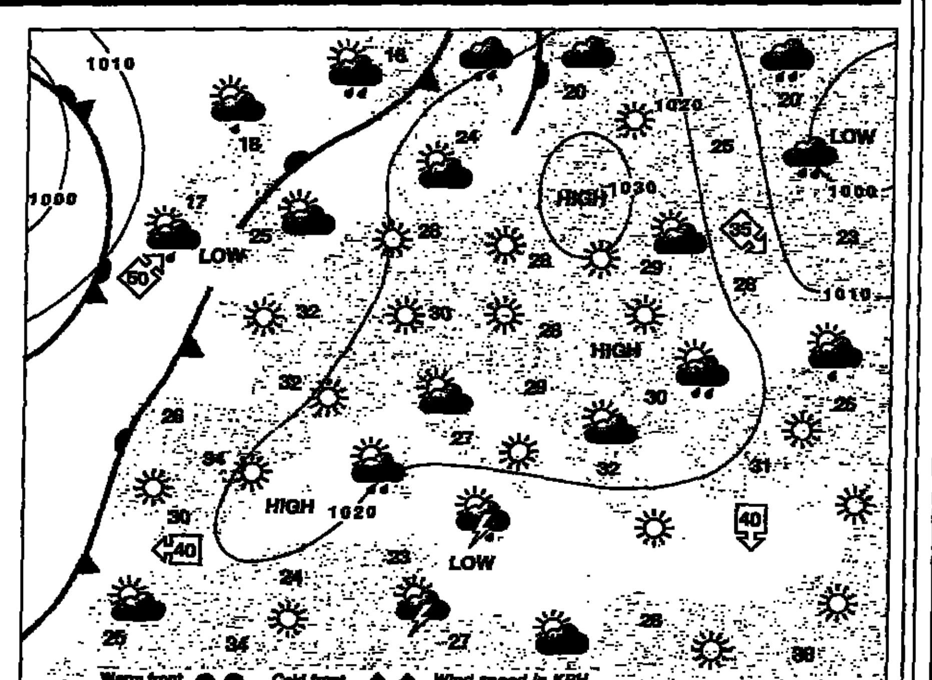
FT WEATHER GUIDE

Europe today

Unsettled conditions will prevail over the British Isles and Ireland. There will be a few light showers in southern Ireland and northern England. Western Europe will be sunny with temperatures between 25C and 35C over a wide area from the Benelux and Germany across France into the Iberian peninsula. North-western Portugal and Spain will have thunder showers during the afternoon. High pressure will promote sunny conditions from the Baltics to the Alps and into the northern Balkans. There will be showers in Sardinia, southern Italy and Bulgaria. Greece and the eastern Mediterranean will be sunny and warm.

Five-day forecast

High pressure will continue over central and southern Europe during the next couple of days. Thunder showers will spread into western Europe during the weekend. The British isles will be sunny with occasional showers in the north. The Baltics and the Balkans will stay sunny.



Situation at 12 GMT. Temperatures maximum for day. Forecasts by Meteo Consult of the Netherlands

TODAY'S TEMPERATURES

Maximum Celsius																	
			Beijing	sun	30	Caracas	cloudy	31	Faro	sun	26	Madrid	sun	31	Rangoon	shower	31
			Belfast	fair	17	Cardiff	cloudy	22	Frankfurt	sun	32	Majorca	sun	27	Reykjavik	cloudy	12
Abu Dhabi	sun	42	Belgrade	fair	29	Casablanca	sun	26	Geneva	fair	31	Malta	thund	23	Rio	cloudy	25
Accra	thund	28	Berlin	sun	31	Chicago	thund	25	Gibraltar	sun	28	Manchester	cloudy	22	Rome	shower	26
Algiers	sun	24	Bermuda	cloudy	29	Cologne	sun	31	Glasgow	fair	18	Manila	fair	34	S. Frsco	fair	28
Amsterdam	sun	26	Bogota	cloudy	17	Dakar	fair	28	Hamburg	sun	25	Melbourne	shower	14	Seoul	fair	29
Athens	fair	30	Bombay	fair	34	Dallas	sun	30	Helsinki	cloudy	20	Mexico City	fair	23	Singapore	thund	32
Atlanta	fair	32	Brussels	sun	30	Delhi	sun	40	Hong Kong	fair	32	Miami	fair	32	Stockholm	cloudy	23
B. Aires	sun	15	Budapest	sun	29	Dubai	sun	41	Honolulu	fair	31	Milan	sun	29	Strasbourg	sun	32
B.ham	cloudy	25	C.hagen	fair	23	Dublin	cloudy	17	Istanbul	fair	25	Montreal	fair	22	Sydney	fair	20
Bangkok	thund	35	Cairo	sun	33	Dubrovnik	sun	28	Jakarta	fair	32	Moscow	fair	21	Tangier	sun	28
Barcelona	sun	25	Cape Town	rain	18	Edinburgh	fair	17	Jersey	sun	25	Munich	sun	30	Tel Aviv	sun	31
									Karachi	fair	34	Nairobi	cloudy	24	Tokyo	fair	23
									Kuwait	sun	40	Naples	shower	28	Toronto	thund	21
									L. Angeles	sun	24	Nassau	fair	31	Vancouver	cloudy	22
									Las Palmas	fair	25	New York	sun	26	Venice	sun	29
									Lima	fair	19	Nice	sun	27	Vienna	sun	28
									Lisbon	sun	30	Nicosia	fair	33	Warsaw	sun	25
									London	sun	28	Oslo	rain	20	Washington	fair	29
									Lux.bourg	sun	30	Paris	sun	32	Wellington	cloudy	12
									Lyon	fair	32	Perth	sun	20	Winnipeg	fair	29
									Madeira	fair	23	Prague	sun	30	Zurich	fair	29